Royal Commission on Financial Management & Accountability

CANADA

FINAL REPORT

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MARCH 1979

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CANADA

TO HIS EXCELLENCY
THE GOVERNOR GENERAL IN COUNCIL

MAY IT PLEASE YOUR EXCELLENCY

We, the Commissioners appointed by Order in Council dated 22nd November, 1976 as revised and amended on 24th December, 1976 and on 13th January, 1977, to inquire into and report upon the best means of providing for financial management in the federal administration of Canada and for the accountability of deputy ministers and heads of Crown agency for their administration: Beg to submit to Your Excellency the following Report.

Chairman

Allen Lambert

Commissioners

Robert Després

J.E. Hodgetts

O.G. Stoner

March 1979

TERMS OF REFERENCE OF THE ROYAL COMMISSION ON FINANCIAL MANAGEMENT AND ACCOUNTABILITY

Order in Council P.C. 1976-2884 approved by His Excellency the Governor General on November 22nd, 1976:*

The Committee of the Privy Council have had before them a report of the Right Honourable Pierre Elliott Trudeau submitting:

> That the growth of government responsibilities and programmes to meet the needs of Canada in recent years has placed unprecedented demands upon the structure, organization and process of administrative management and control in the Government of Canada;
>
> That the Public Service of the Government of Canada has long enjoyed an enviable reputation for efficiency and probity and the government wishes to ensure the maintenance, in the new circumstances, of the high standards of public service the Canadian people have received in the past and rightly expect;
>
> That reports of the Auditor General have caused the government serious concern that the current state of financial administration in the Government of Canada is not now adequate to ensure full and certain control over and accountability for public funds required for the expanded responsibilities and programmes that now exist; and

* As amended by Orders in Council P.C. 1976-3322 (December 24th, 1976) and P.C. 1977-45 (January 13th, 1977).

That it is essential that the government have the capacity to ensure in the Public Service that authority and accountability together ensure the most efficient use of resources, and that all opportunities to make savings, avoid waste and increase productivity are vigorously pursued.

It is therefore in the national interest that a comprehensive inquiry be made into the best means of providing for financial management in the federal administration of Canada, including departments and Crown agencies, and for the accountability of deputy ministers and heads of Crown agencies for their administration, including evaluation of their performance in this regard; taking into account the constitutional roles and responsibilities of Parliament, Ministers and the Public Service, and more especially the principle of the collective and individual responsibilities of Ministers to Parliament.

The Committee, therefore, on the recommendation of the Prime Minister, advise that:

Robert Després
John Edwin Hodgetts
Allen Thomas Lambert
Oliver Gerald Stoner

be appointed Commissioners under Part I of the Inquiries Act to examine and report on the management system required in the inter-related areas of:

(i) financial management and control,
(ii) accountability of deputy ministers and heads of Crown agencies relative to the administration of their operations, and
(iii) the evaluation of the administrative performance of deputy ministers and heads of Crown agencies,

and the interdepartmental structure, organization and process applicable thereto, including in particular:

(a) the development, promulgation and application of financial management policy, regulations and guidelines by central agencies,
(b) procedures to ensure that,

(1) necessary changes in policy, regulations and guidelines are identified, and
(2) policy regulations and guidelines are adhered to,

(c) systems and procedures to ensure effective accountability to government and, where appropriate to Parliament, of the administration of government departments and agencies, and

(d) the organization necessary in central agencies, government departments and Crown agencies to achieve the foregoing.

The Committee further advise:

1. That the Commissioners ensure that their recommendations form a mutually compatible management system appropriate to the requirements of government;

2. That the Commissioners be authorized to exercise all the powers conferred upon them by section 11 of the Inquiries Act and be assisted to the fullest extent by government departments and agencies;

3. That the Commissioners adopt such procedures and methods as they may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and in such places in Canada as they may decide from time to time;

4. That the Commissioners be authorized to engage the services of such counsel, staff and technical advisers as they may require at rates of remuneration and reimbursement to be approved by the Treasury Board;

5. That the Commissioners report to the Governor in Council with all reasonable despatch, and file with the Dominion Archivist the papers and records of the Commission as soon as possible after the conclusion of the inquiry;

6. That the Commissioners review the reports of the Auditor General for the fiscal years ending March 31, 1975 and March 31, 1976 and the supporting material thereof; and other relevant Parliamentary reports;

7. That the Commissioners submit progress reports if possible, as they complete stages of their study, with an initial report not later than December 31, 1977; and

8. That Allen Thomas Lambert be designated Chairman of the Commission.

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PROCEEDINGS OF THE COMMISSION

The Royal Commission on Financial Management and Accountability was established under Part I of the *Inquiries Act* by Order in Council dated November 22, 1976, revised and amended December 24, 1976 and January 13, 1977.

The reasons for our appointment, as set out in the original Order in Council, were the unprecedented demands placed on government by the growth in its responsibilities and programs; a desire to ensure the efficiency and probity in the public service of Canada; a serious concern about the adequacy of financial administration in government for establishing effective control over, and accountability for, public funds; and the need to achieve the effective use of resources, the avoidance of waste, and increased productivity in government.

Our first task was to organize the essential activities of advisory support, research, and administration, and to plan the conduct of the inquiry. Following the staffing of the Commission's office, contact was made by letter with all ministers and other Members of Parliament, Senators, deputy ministers, heads of Crown agencies, and senior officials. We decided to proceed by means of informal interviews with these key participants in the management of the federal government, followed by interviews with officials of provincial and foreign governments and those with private sector experience in financial management, accountability, and general management practices. We sought the views of the public and indicated a willingness to hold public meetings through an advertisement in newspapers across the country and as a result received several thoughtful and useful submissions. We organized a small number of research projects chosen after study of our

terms of reference and an initial round of interviews. The major aspects of planning and launching the work of the Commission were completed by the end of March, 1977.

During April, May, and June of 1977, we held extensive discussions with a large number of those to whom we had written, as well as the Auditor General and his staff, and other senior officials. These discussions culminated in the publication of a Progress Report in November 1977, in accordance with our terms of reference. In this Report we described the issues, set out as a series of questions, that we would address in our recommendations to strengthen the efficiency and effectiveness of the management system throughout the federal government. We outlined three key areas in the accountability of the Government to Parliament: the role and responsibilities of the Cabinet and the four central agencies in establishing priorities, allocating resources, and monitoring the quality of management in departments and agencies; the role and responsibilities of the deputy heads of departments and their senior management teams; and, the system of direction, control, and accountability of Crown agencies.

Following the publication of the Progress Report, we received a number of public and confidential submissions. A series of meetings was held with assistant deputy ministers, directors-general, and senior managers both in the National Capital Region and throughout Canada. Individual members of the Commission or staff held a number of meetings with government officials in provincial capitals, Washington, London, and Paris. The conclusions and recommendations of the research teams were also examined during this period. The writing and preparation of the Final Report was begun in September 1978, and the report was completed, save for translation and printing, in January 1979.

The Commission is grateful to all those with whom we met and to those who took the trouble to send us submissions. We would also like to acknowledge the special contribution and support of the Special Advisers to the Commission:

Mr. Michel Bélanger, Chief Executive Officer of the Provincial Bank of Canada

Mr. Robert B. Dale-Harris, Partner, Coopers & Lybrand

Mr. Alfred Hales, former MP and Chairman of the Public Accounts Committee, 1966-74

Mr. Ian Macdonald, President of York University

Mr. Donald Yeomans, Commissioner, Canadian Penitentiary Service

The Commission is also indebted to Hiram Walker-Gooderham & Worts Ltd. who loaned us the services of Mr. J.D.N. Ford, Vice-President, who came for an initial period of eight weeks to assist the Commission in its review of financial management, but stayed on for over a year and was of great assistance in the preparation of this Report.

It would be impossible to name all those who came forward with advice and counsel. As the list of meetings shows, we met over 400 people, and to all of them we express our gratitude. We would be remiss, however, if we did not draw attention to the support and submissions we received from the staff and senior officials of the Treasury Board, the Public Service Commission, the Privy Council Office, the Department of Finance, and the Office of the Auditor General.

We acknowledge and thank all those who took part in and made a contribution to this inquiry. In particular, we acknowledge with grateful thanks the dedication and enthusiasm of the members of our staff who contributed so much to our deliberations and whose willingness to work long hours made it possible to bring out this Report in its present form and on time.

The Members of the Commission take full responsibility for the Report and for the recommendations.

PART I

TOWARD A FRAMEWORK FOR ACCOUNTABILITY

INTRODUCTION

Since the Commission issued its Progress Report in November 1977, several developments have had a bearing on our work and on this Report. The Government has announced new initiatives related to the management of resources and has taken some potentially significant steps designed to reduce expenditures. There have also been the widely publicized reports from the Auditor General, the Public Accounts Committee of the House of Commons, and the Standing Senate Committee on National Finance.

From these initiatives and reports, it has become apparent that the management of government requires greater attention from Parliament, ministers, and public servants than it has been given in the recent past. Programs and activities must not be approved without more carefully defined goals and objectives, and a realistic forecast of costs. Parliament should pursue more vigorously its role of holding the Government to account. The Cabinet and individual ministers should provide more leadership and direction to officials to ensure that they administer their operations with economy, efficiency, and effectiveness, and should be more directly involved in holding them to account for carrying out their assigned tasks.

In addition, the unsustainable rate of growth of government and its complexity and size make it increasingly obvious that there needs to be greater care in the use of the resources that have been entrusted to government. Not only is waste to be avoided, but in the context of today's fiscal situation and the pervasiveness of government activity, managers in the public service are being challenged to rediscover a sense of frugality and a commitment to the careful husbanding of resources.

In framing our recommendations, we have been mindful of how governments and bureaucracies react to proposals for change. New requirements must not be so massive as to overwhelm or immobilize the public service; nor must they deter the public service from its fundamental role of serving people. We recognize that the circumstances in which we are working are not unlike those that led Dean Acheson, the former U.S. Secretary of State, to write that "carrying out administrative reform in the State Department is like operating for an appendectomy on a man carrying a piano upstairs". What we recommend, therefore, must not add new complications. We have been conscious throughout our work of the danger that processes and structures at the levels of Parliament, the Government, and the departments and agencies can become overloaded and thereby frustrate the best intentions for improvement. Similarly proposals to strengthen management should not foster a new growth industry in the bureaucracy.

As we stated in our Progress Report, the patient cannot be returned to good health by poultices alone. Any cure that will work must look to a fundamental diagnosis of the ailment, and take into account the economic cost of the cure and any adverse side effects of the treatment. There is a price for any reform which must be judged, like any other cost, in terms of foreseeable benefits. But it is surely not beyond our will and wit to prescribe for the disease without crippling the patient.

We have been struck by the great pressures facing those who now exercise leadership in the public service, and by the need to reinforce the self-image and the public image of those doing a good job. Great dedication and competence are often frustrated by the force of public demands and by weaknesses in the system of government itself. There is, in many public servants, a high degree of commitment to sound management. This commitment must be nurtured if we are to halt the decline in the image, morale, and effectiveness of the Canadian public service. Without a reinforcement of the values of integrity, competence, and dedication, it is not likely that esteem and confidence will be restored. Indeed, this is critical, because the regard in which the public servant is held by those he serves—both the Government and the people—is, in the final analysis, the standard by which he measures the value of his contribution to society. That the challenge is a great and continuing one was stated with force and eloquence almost a decade ago

in the memoirs of the late Arnold Heeney, one of the great architects of the Canadian public service.

> In a complex society which makes ever-increasing demands on government, a large and complicated public service is inevitable. Great size and complexity carry with them terrible dangers, chiefly, of course, the dangers commonly associated with the word 'bureaucracy'. Individual civil servants may lose—or may never acquire—the sense of vocation which is so important to the quality of human achievement. They may well feel themselves to be without purpose in a massive government machine. Should this happen, able men and women will not be persuaded to enter the Public Service. To prevent this happening should be the continual care, not only of government, but of all Canadians.[†]

Public confidence will return with the assurance that public servants are managing soundly and being held accountable for performance and results.

Accountability, like electricity, is difficult to define, but possesses qualities that make its presence in a system immediately detectable. To touch a live wire in a circuit is enough to establish the presence of electricity without further need of definition. The shock of recognition that attends the presence of accountability in a system of government may not be quite as direct, but it is nonetheless detectable. We see accountability as the activating, but fragile, element permeating a complex network connecting the Government upward to Parliament and downward and outward to a geographically dispersed bureaucracy grouped in a bewildering array of departments, corporations, boards, and commissions. Accountability moves through this network like the current in a circuit but always in some sort of relation to the control centre, the Cabinet. The dispersal and structural complexity of the bureaucracy make the control centre vulnerable to stoppages and short-circuits or overloading. The control centre, the Government, although ultimately responsible for answering to the legislature, may find itself out of touch with what is happening, or failing to happen, at the other end of the network. Similarly, a signal from the centre may never reach the departmental unit or agency concerned or may reach it in so confused a state that judgements as to performance become impossible to make.

[†] Arnold Heeney. *The Things That are Caesar's.* (Toronto, 1972) p. 203.

In short, accountability relies on a system of connecting links - a two-way circuit involving a flow of information that is relevant and timely, not only for managers but for those who must scrutinize the decisions and deeds of managers. We gauge its presence when we observe that a certain *discipline* has been imposed upon those who are assigned roles and duties in the system. In simple terms, accountability is that quality of a system that obliges the participants *to pay attention* to their respective assigned and accepted responsibilities, to understand that it does matter. Thus, the likelihood that agreed goals and objectives will be attained is enhanced.

In our Progress Report we defined the functional criteria of such a system as follows:

> It should be capable of planning and defining the government's priorities; converting priorities into programs with clearly defined and agreed objectives, allocating the requisite resources and setting centrally imposed standards and procedures; delegating to managers the authority to implement programs by developing the assigned human, physical and financial resources; and, providing monitoring and appraising procedures to ensure that all the actors are held fully and clearly accountable in a progressive and unbroken chain of linkages carrying through to the sovereign Parliament.

After two years of work, we are even more persuaded than we were at the beginning of the seriousness and importance of our mandate. The quality and effectiveness of government programs and services can only be maintained if greater economy and efficiency in their administration can be attained. The large and continuing increase in the public debt required to fund government programs and services and to stabilize the currency in international markets, the escalation of interest rates to record heights, and unacceptably high levels of unemployment and inflation have placed unprecedented pressures on the economy and also on the resources available to government. In Canada, as in almost every other democratic country, these problems, coupled with changes in public expectations, mores, and attitudes, threaten the confidence that the public needs to have in the processes of government and create an uneasiness about the seriousness with which its affairs are being conducted.

Our Report is written in the context of the problems and difficulties facing Canada today. We expect that our recommenda-

tions will be received and assessed in terms of their contribution to giving government a greater capacity to devise constructive solutions to these issues. While we have directed our attention to accountability and particular management problems such as efficiency and effectiveness and performance evaluation, as we were surely required to do, this does not mean that there was not an awareness on the part of those who set our terms of reference, or on our part, that there are considerations of social justice that may need to override all others. We are not unmindful of this, but believe that careful, responsible management will contribute to making it possible that the broader obligations of government to the people can be fulfilled.

It is for this reason that we begin our Report with a description of the fiscal dilemma facing government today, and the difficulties created by the growth of government expenditures and the deficit required to finance them. This is the environment within which managers in the public service will have to operate in the foreseeable future. Although it is not within our mandate to make recommendations in this area, we are convinced that without sound management and a greater measure of accountability for results, the Government will fail in its efforts to restore stability and order in the management of government and to renew public confidence that the public purse is under control.

We have been encouraged by the determination we have sensed in all of those with whom we have met - parliamentarians, and members of the Government, the public service and the private sector - to bring about change and improvement. We hope that our recommendations will be a worthwhile contribution to the restoration of health and vigour in the economy and to the rekindling of confidence and determination in the spirit of the nation. We wish to bolster the efforts of the many Canadians, both inside and outside government, who are working to achieve effective and responsible government.

1

THE FISCAL DILEMMA

In the terms of reference under which this Commission was appointed on November 22, 1976, it was acknowledged that the "growth of government responsibilities and programmes to meet the needs of Canada in recent years has placed unprecedented demands upon the structure, organization and process of administrative management and control in the Government of Canada." The Order in Council establishing this Commission underlined the need to maintain a high standard of public service, which in turn required that authority and accountability together ensure the most efficient use of resources.

The order makes it clear that one of the factors behind the decision to create the Commission was the Government's concern, arising out of reports by the Auditor General, that "the current state of financial administration in the Government of Canada is not now adequate to ensure full and certain control over and accountability for public funds required for the expanded responsibilities and programmes that now exist."[†]

In the Progress Report that we issued in December 1977, we pointed out that, "while our mandate does not extend to the study of the causes of the growth of government, we believe that the strains it imposes on the system of management and the consequent weakening of accountability constitute the heart of the matter." In the same report, we also sounded this caution:

> Lacking the early warning system that well-structured accountability relations provide, governments run the risk of destroying their credibility. If this should occur, it would lead to the shattering of

[†] Canada, Office of the Auditor General. *Report, 1976*, p. 9.

> public confidence in the probity and seriousness of governments' endeavours, and might well undermine the stability of our society.

The concerns of the Auditor General were particularly evident in his report for the fiscal year ended March 31, 1976, which was released coincidentally with the announcement of the appointment of this Commission. In that report, the Auditor General declared:

> I am deeply concerned that Parliament—and indeed the Government—has lost, or is close to losing, effective control of the public purse . . . *Based on the study of the systems of departments, agencies and Crown corporations audited by the Auditor General, financial management and control in the Government of Canada is grossly inadequate. Furthermore, it is likely to remain so until the Government takes strong, appropriate and effective measures to rectify this critically serious situation.*†

Developments since the Auditor General made that statement reveal dimensions of a crisis that extend far beyond the problem of weakness in financial management and control—serious as that is. These dimensions provide the context in which our inquiry has taken place and against which our ensuing proposals must be viewed. We cannot turn our backs on the gathering troubles that gave urgency to the establishment of this inquiry and today give even greater force and urgency to the recommendations that flow from our work.

The apparently unexpected slide toward increasing deficits in both the internal accounts of the federal government and the external accounts of Canada's transactions with other countries is symptomatic of the deeply rooted problems confronting us as a nation. The single most important measure of those problems, however, is not the government's prospective cash deficit for the current fiscal year of $12 billion or more, a sum that amounts to at least one-quarter of the government's total projected expenditures for the year, but rather that it was unplanned and unexpected in the sense that it would not have been part of the long-term plan, had there been one. Nevertheless, the deficit currently being incurred on a National Accounts basis is not only the largest ever experienced in our peacetime history, both absolutely and relative-

† *Ibid.*, p. 9. (his emphasis)

ly, but in relation to gross national product is almost twice as large as that of the U.S. federal government. In the United States, the level of the deficit is regarded as a matter of grave concern. Arthur Burns, the former Chairman of the Federal Reserve Board, recently addressed this issue in a lecture at Georgetown University, saying that "the persistence of substantial deficits in our federal finances is mainly responsible for the serious inflation that got under way in our country in the mid-Sixties."†

No early improvement in the fiscal imbalance, which is symptomatic of this malaise, is clearly in prospect. There is every indication that the federal government would continue to face a substantial deficit at existing spending levels and tax rates even with a resumption of normal economic growth and a consequentially normal increase in federal revenues. In its *Economic Review* of April 1978, the Department of Finance maintained that the mounting federal deficits since 1975 "have resulted, in substantial part, from the operation of the economy at below average levels of activity."††
At the same time, however, the Department acknowledged that, even if the economy had been growing in line with its presumed long-term growth rate of around 4.5%, the 1977 federal deficit on a National Income Accounts basis would still have amounted to a substantial \$4.4 billion, as compared with the actual deficit of \$7.3 billion. Similarly, a 1978 staff study on taxation by the Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, *Reassessing the Scope for Fiscal Policy in Canada*, estimated that, on a high employment basis (that is, a situation in which national unemployment did not exceed 5.6%) the federal government deficit on the same National Accounts basis in 1977 would have been somewhere between \$3.6 billion and \$5.3 billion.

A recently published report by the Organisation for Economic Co-operation and Development, *Public Expenditure Trends*, June 1978, indicated that during the period 1962 to 1975, spending by all governments in Canada in relation to Gross Domestic Product rose from 29.4% to 40.9%. While government expenditures in Canada in proportion to GDP remained below the comparable proportion in some of the other member nations of the Organisation for Economic Co-operation and Development, the rate of

† A. F. Burns. "Burns weighs the future of free enterprise." *Across the Board* Vol. XVI No. 1, January 1979, p. 21.
†† Canada, Department of Finance. *Economic Review*, April 1978, p. 85.

increase in this proportion of 11.5 percentage points was greater than that in any other major Western country, and nearly three times the rate of increase in the United States. This cannot be blamed solely on the federal government. Federal spending has grown at rates below that of other levels of government in Canada; nevertheless, it has sponsored a number of expensive cost-sharing programs.

It would appear, however, that regardless of the cause of the escalation of federal deficits over the past few years, there was no effective early warning mechanism. If this is so, then the system has been operating under inadequate and uncertain control. These deficits are not this Commission's particular concern, but, since they reflect more serious shortcomings in organization, structure, financial control, and the accountability process, we are forced to take them into account. We are also forced to ask whether Canadians know the course being steered—where it is leading—or whether we are just captives of events.

Large and rapid growth in the public sector puts a heavy strain on any system of government. In Canada, rapid growth has been compounded by a number of factors, including far-reaching changes in the structure of government made in response to the proposals of the Royal Commission on Government Organization (the Glassco Commission), the introduction of collective bargaining and bilingualism in the public service, and extensive realignment in the Cabinet system.

The strong and sustained economic upsurge throughout the 1960s and early 1970s, interrupted only by a brief pause around the turn of the decade, led to the mistaken belief in many quarters that economic growth would continue unabated and, as a consequence, that the high level of government spending could continue as well. Effective planning with respect to the use of total resources was wholly inadequate.

The interaction between rapidly inflating incomes and the progressive income tax rates, together with some significant rate increases, helped to swell government coffers. This massive upsurge in revenues coincided with growing pressures from Parliament and the public for new policies and expanded programs. Other new spending proposals were brought forward by governments on their own initiative in efforts to garner electoral support.

Despite the increasing bite of taxes, the take-home pay of the average Canadian continued to increase. Workers in this country

had become increasingly resistant to the growing proportion of their income being siphoned off in taxes, particularly because it was not apparent that services were being provided at the lowest cost and because there was no opportunity to measure the real value of the benefits being provided. Attempts by workers to offset the rising share of incomes being absorbed by governments by expanding their demands for wage and salary increases only served, in turn, to generate still greater inflationary pressures.

Early in the 1970s, the federal government moved to counteract the twofold impact of inflation in eroding the value of social payments, such as old age pensions and family allowances, and in promoting mushrooming growth of tax revenues. By indexing social programs, the Government tied benefit expenditures to the spiral of inflation; by indexing the personal income tax system, the Government, in effect, ensured that revenue from this major source of taxation would move in the opposite direction. Given the conflicting effects of these two forms of indexing in a period of continuing high inflation, greater deficits were inevitable.

Many costly measures aimed at improving our welfare system have been put in place during the last decade. These included larger payments to the unemployed and welfare recipients, expanded health care, and other measures to offset the adverse effects of inflation. These represent well-intentioned efforts to serve the goals of fairness and equal opportunity, particularly for those Canadians who are disadvantaged in one way or another. It must be recognized, however, that our well-meaning efforts as a people have contributed to the present critical financial straits of the federal government and the serious threat that poses to other levels of government and to the whole Canadian economy. As Pogo succinctly put it, "I have seen the enemy and he is us!"

Many of the costly measures put in place by Governments over the past decade and a half have been aimed at stimulating economic growth, reducing unemployment, and reducing or offsetting the impact of inflation. But at a time when the economy continues to be affected by sluggish growth, high unemployment, and high inflation, it is worth reflecting on the conclusion drawn by British Prime Minister James Callaghan in a speech to a Labour Party conference on September 28, 1976.

> When we reject unemployment, as we all do . . . then we must ask ourselves unflinchingly—what is the cause of high unemployment?

> Quite simply and unequivocally it is caused by paying ourselves more than the value of what we produce . . . It is an absolute fact of life which no government, be it left or right, can alter . . . We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists and that insofar as it ever did exist, it worked by injecting inflation into the economy. And each time that happened the average level of unemployment has risen . . . And each time we did this the twin evils of unemployment and inflation have hit hardest those least able to stand them—our own people, the poor, the old and the sick.

We fully recognize that neither the growth in, nor the level of, government expenditures at any given time are matters that fall directly within our terms of reference. Yet, we cannot divorce ourselves from these considerations because they bear heavily on those issues we were directed to study with respect to "the interdepartmental structure, organization, and processes" of the federal government. Of fundamental importance is the fact that this rapid expansion of revenues and expenditures engendered a state of mind, permeating the entire system, that seriously eroded old values of prudence, economy, and restraint.

Both federal and provincial governments have committed themselves to increasingly rigorous programs of expenditure restraint, in part to offset the strong upward pressure on spending resulting from built-in cost escalators in a number of their activities. Despite the efforts made to date, however, the fact remains that, as of the first half of 1978, total spending by all levels of government in relation to GDP was running close to the record peacetime level of 40.9% recorded in the third quarter of 1975. It is clear, therefore, that there must be a firm resolve to bring our revenues and expenditures into better balance. This, of course, gives even more meaning and purpose to measures that will contribute to greater efficiency and reduce waste, for restraint, as such, should not carry all the burden.

Approximately one-quarter of present federal spending must be met by substantially increased borrowing to cover the projected cash deficit for the current fiscal year of nearly $12 billion. Nor can we overlook the fact that this soaring burden of debt will have to be serviced with respect to both principal and interest. Even if economic growth were restored to its long-term trend, the indica-

tions are that the federal government would continue to be confronted by deficits that would be substantial by any past measure. Eventually the government will have no choice but to restore a better fiscal balance, and to achieve that goal it will have either to increase taxes substantially (and many Canadians believe they are already too high) or to reduce expenditures substantially, or both. The enormous magnitude of the task becomes more evident when we consider that if expenditures remained at the level forecast for the current fiscal year, it would be necessary to almost double the revenue from personal income taxes or, to put it another way, to apply a tax increase equivalent to more than $500 for every man, woman and child in Canada in order to eliminate the projected cash deficit.

The fact is that the larger the size of government and the higher the levels of expenditure, the more important it becomes to ensure that proposals for improving management and accountability systems are couched in terms of the broad fiscal conditions we have just outlined, and the more urgent it becomes to achieve greater economy and efficiency. There are no quick and easy remedies for overcoming the deeply rooted problems that confront our federal government. In attempting to fulfil the mandate entrusted to us in our terms of reference, we will be proposing far-reaching changes in the organization, structure, and processes of the system in the belief and expectation that they will result in tighter control and a more efficient and effective operation. Nevertheless, the multiplicity of changes we are recommending are only tools for restoring orderly management of the system by government and Parliament. Unless there is a concerted will on all sides to put these tools to work to achieve that objective, they will count for little.

2

FUNDAMENTAL FLAWS

After two years of careful study and consideration, we have reached the deeply held conviction that the serious malaise pervading the management of government stems fundamentally from a grave weakening, and in some cases an almost total breakdown, in the chain of accountability, first within government, and second in the accountability of government to Parliament and ultimately to the Canadian people.

Accountability is the essence of our democratic form of government. It is the liability assumed by all those who exercise authority to account for the manner in which they have fulfilled responsibilities entrusted to them, a liability ultimately to the Canadian people owed by Parliament, by the Government and, thus, every government department and agency.

Accountability is the fundamental prerequisite for preventing the abuse of delegated power and for ensuring, instead, that power is directed toward the achievement of broadly accepted national goals with the greatest possible degree of efficiency, effectiveness, probity, and prudence. Establishing the means of proper accountability is our fundamental concern. But we are concerned also with the institution of proper financial administration and controls, because they are essential both to maintaining sound overall management of government and to the rendering of a full account for the exercise of responsibility and authority.

At the very centre of our democratic system stands Parliament. Within the confines of the constitution, Parliament is supreme. It ultimately authorizes the levels of government revenue, spending, and debt. No laws proposed by the Government of the day to give expression to new policies or to establish new

programs can be put into force without its consent. By long established tradition, the Government is accountable to Parliament (in practice, the House of Commons) for the manner in which it exercises the responsibilities and authority delegated to it in trust. The Government may continue to exercise the responsibilities of office only so long as it continues to command the confidence of a majority of Members of Parliament. Parliament's ultimate sanction, therefore, is to withdraw its confidence and compel the Government either to seek a new mandate from the electorate or to resign in favour of another party that can command the confidence of a majority in Parliament.

Short of exercising that ultimate sanction, Parliament has not only the right but the duty to seek out and draw public attention to shortcomings in the Government's conduct of the nation's business. In cases in which supporters of the governing party represent a majority in Parliament, it is unrealistic to envisage that ultimate sanction being exercised except in the rarest of circumstances. But Members of Parliament, particularly those in opposition whose responsibility it is to criticize, can, and often do, compel Governments to remedy shortcomings by rallying to their side the almost irresistible force of public opinion.

Ultimately, the Government and all Members of Parliament are accountable to the citizens of Canada, who, through their votes, determine the political composition of the House of Commons and, indirectly, the party that will form the Government, either alone or in coalition or co-operation with another party or parties. This dual accountability of the Government to Parliament and to the people places a heavy onus on the Cabinet to exact an accounting from the more than 400 departments, Crown corporations, agencies, boards, commissions and councils that make up the federal administration for the manner in which they fulfil the responsibilities entrusted to them.

In our judgement, the breakdown in the accountability chain is primarily the result of a number of defects that have developed over a period of several years in the structure, organization, and processes of both Parliament and government. As well, the problems facing both Parliament and the Government in properly exacting accountability have been enormously compouded by the immense growth in the size and scope of governmental activities over the past decade and a half, and the adverse consequences have grown commensurately.

When the Glassco Commission submitted its report in 1962, the share of national income under the control of governments was only some 30%, the breadth and magnitude of government activities were considerably more limited than they are today, and at the federal level there were substantially fewer departments and agencies to carry out the existing tasks of government. Nevertheless, the Glassco Commission came to the conclusion that the size and extent of government had long since gone beyond the point where it could continue to be properly managed and directed by the highly centralized and inflexible management system that had been in place since World War I.

In a series of recommendations whose thrust was interpreted as a call to "let the managers manage", the Glassco Commission called for a drastic decentralization of the authority exercised by federal departments and agencies, subject to full accountability for the exercise of that authority in pursuit of clearly established responsibilities and objectives and subject to the central management framework established for the governmental system as a whole. The essence of the underlying philosophy guiding the Glassco Commission was distilled in the following words:

> Above all, departments should, within clearly defined terms of reference, be fully accountable for the organization and execution of their programmes, and enjoy powers commensurate with their accountability. They must be subject to controls designed to protect those general interests of government which transcend departmental interests. But every department should be free of external controls which have no such broad purpose.†

In the years that followed, a number of steps were taken with the avowed purpose of reshaping administration in government in line with the plan for management developed by the Glassco Commission. A significant degree of decentralization was undertaken with the transfer of broad powers formerly exercised by central bodies to individual departments and agencies. The Treasury Board Secretariat was divorced from the Department of Finance and established as a separate department under its own minister. It was intended to provide the necessary central direction and guidance referred to by Glassco over the allocation of funds to individual departments and agencies and over their management

† Royal Commission on Government Organization. *Report*, 1962. Vol. I. p. 51.

of financial and human resources. The common services of government also underwent a major reorganization in an effort to achieve lower costs and increased efficiency. In addition to the changes within the administration that were made in response to the Glassco recommendations, an extensive restructuring of the Cabinet committee system was also undertaken in an effort to enable ministers to exercise firmer control over the Government's policies and programs and particularly over its priorities and planning.

The Glassco Report recognized the need for the increased delegation of authority to individual departments and agencies to be matched by a comparable degree of accountability. Unfortunately, the Commission provided no clear direction as to how such accountability should be rendered within government, perhaps because it considered itself barred by its terms of reference from recommending an accountability framework that would extend from government to Parliament. This resulted in a number of serious flaws, the gravity of which was enormously compounded by the rapid growth in the scope and scale of government itself.

While there was a substantial delegation of authority to departments and agencies, a remaining web of detailed restrictions imposed by such central bodies as Treasury Board and the Public Service Commission was considered in some quarters to impede the effective management of financial and human resources. Far more serious has been the tendency to substitute controls in place of establishing the broad direction and critical counterbalances required to obtain a full accounting from departments and agencies for the powers delegated to them, the resources allocated to them, and the efficient and effective achievement of the goals agreed upon.

Virtually no effort has been made to establish clearly defined objectives against which the performance of a department or agency can be measured either in total or in respect of particular programs or activities. Nor have the rewards and sanctions for individuals that should be such a vital part of accountability been incorporated into the system. The Treasury Board Secretariat has been heavily preoccupied with the allocation of new resources, rather than with the efficiency with which existing resources are employed. Of late it has also been increasingly concerned that compliance be ensured by issuing a plethora of new regulations that contribute little to the improvement of departmental management. Treasury Board has not seen itself, at least until recently, as

the central arm of government responsible for calling departments and agencies to account for the quality of their own management. No adequate process is in place by which an accounting can be exacted; little effort has been made to require the provision of financial and other information essential to measuring performance in relation to objectives, a prerequisite to making such an accounting meaningful.

The management of personnel in all its aspects is as important as, if not more important than, financial management in achieving effective overall management of government activities. While the Treasury Board does possess a number of broad powers with respect to personnel, its capacity to oversee this function has been impaired by the assignment of one important aspect, the actual staffing of positions, to the Public Service Commission, which has conflicting responsibilities with respect to government and to Parliament. Although this delegation of responsibility for overseeing the selection of individuals to fill particular positions was adopted as a means of ensuring the enforcement of the merit principle, it has reduced the freedom of the Government and individual departments and agencies to manage personnel effectively.

A further significant imbalance is also evident with respect to the roles and responsibilities of the Department of Finance and the Privy Council Office. The once pre-eminent position of the Department of Finance as the arbiter of all matters relating to the broad financial position of the federal government has, in recent years, been eroded. In part its authority may have been undermined by the removal from it of the Treasury Board Secretariat and the establishment of the latter as a separate department with primary responsibility for resource allocation. In part its authority may have been affected by the role undertaken by the Privy Council Office in co-ordinating and developing major new policy measures, many of which carried important financial implications for the longer term that were not always properly weighed in the balance.

The proliferation of non-departmental Crown agencies, now running into the hundreds, has become a growing issue of public concern. Crown corporations in particular have been the subject of a number of recent reports and studies by the Auditor General, the Public Accounts Committee of the House of Commons, and the Privy Council Office. These studies have been made as a result of actions that have cast doubts on the soundness of the corporations'

management and financial administration, on the morality of their commercial practices, on the degree to which they were serving their intended national purpose, and on the extent of their accountability to the Government and Parliament.

In the absence of a requirement to account adequately for the conduct of their affairs, departments and agencies have been under little compulsion to husband the resources available to them, particularly in the years when funds flowed freely, and to ensure that they were being employed with the greatest possible efficiency and effectiveness.

Problems of management within departments and agencies have been further magnified by confusion relating to the responsibility and accountability of deputy heads. While in practice responsible for the administration of their respective organizations, few have been given any clearly defined objectives and goals. Deputy ministers are appointed by Order in Council on the recommendation of the Prime Minister, with whom they have a responsibility link, but they are also accountable to the individual ministers they serve and to the Treasury Board and the Public Service Commission for responsibilities delegated to them under law. As well, their performance is subject to review by the Committee of Senior Officials on Executive Personnel (COSO) which submits evaluations of Order in Council appointees to the Cabinet. In law and in practice, deputy heads bear significant responsibility for the administration of their organizations, but Canada, much more than Britain, on whose constitution our own is based, continues to impose ultimate responsibility on ministers for the administration of departments. The full application of that concept serves only to cloud the real accountability of those who are in charge of day-to-day operations.

Apart from these structural and procedural flaws, management in the public sector has suffered traditionally from a narrow definition and indeed a narrow perception of what was really involved in it. This in turn led to abnormal stress being placed on the differences in the roles of policy adviser and manager. A good manager in the public sector should see his mandate as understanding policy objectives and priorities as established by the political process, working to help develop programs to implement these policies and priorities, and then seeking adequate resources to implement them effectively and with due regard to economy and efficiency.

The defects in financial administration and control among federal departments, which have been so starkly portrayed by the Auditor General, can be seen as a direct consequence of the absence of any requirement to provide a proper accounting for the carrying out of the management role. That the Government recognized the serious weaknesses in financial management underlined by the Auditor General is evident from the announcement by the President of the Treasury Board, in April 1977, that the Government had accepted the Auditor General's recommendation for the appointment of a Comptroller General, who would serve as the "chief financial administrator of the federal Public Service".† While it will take time to establish sound and effective financial administration throughout government, it is clear to us that the action taken was timely, and we judge that real progress is being made by the Comptroller General in carrying out his duties. We are confident that it is recognized by the Comptroller General, as it must be recognized also by the Auditor General, that care must be taken to ensure that the audit and evaluation functions do not create demands for substantial new resources or divert departments from fulfilling their mandates. But we are convinced that the benefits will far outweigh the costs if their audit and evaluation functions are properly integrated into the ongoing process of management.

Over the course of the past few years, several new financial measures for improving management efficiency have been developed and applied to a limited extent within government, including cost-benefit analysis, program planning and budgeting, operational performance measurement, and management by objectives. The contribution of each of these has been limited because, in the absence of any requirement for departments or agencies either to manage their affairs effectively or to demonstrate to the Government and Parliament that they were doing so, there has been little pressure to apply such techniques rigorously.

If waste and misdirection of resources are to be avoided, financial considerations must be at the core of every phase of departmental activity. These should form an essential part of the entire planning process, the budgeting of resources to implement those plans, the control of subsequent expenditures, and the evaluation of the efficiency and effectiveness with which any

† Canada. House of Commons. *Debates*, p. 4949, April 25, 1977.

activity has been undertaken. That financial considerations have instead been consigned to the periphery in many departments and agencies is a reflection of the lack of concern within government about the quality of management itself.

The weakness in financial administration and control exercised by most departments and agencies has been further aggravated by the requirement that they be integrated into the central accounting system of government. Based on a cash accounting approach that is primarily geared to meeting the reporting requirements of Parliament, the Bank of Canada, the Department of Finance, and Statistics Canada, this system fails to pay due regard to acceptable accounting principles, and it fails to generate the financial information best suited to proper management planning, budgeting, control, and evaluation of results. The inadequacy of internal audit systems, concerned primarily with maintenance of probity and very little with whether operations are carried out efficiently and effectively, only intensifies the problem.

The absence or short-circuiting of the accountability links within government is the result, in no small measure, of the serious weaknesses that have developed in the capacity and readiness of Parliament to call the Government to account for the management of the nation's affairs. Robert Stanfield, the former leader of the Progressive Conservative Party, has argued that "the current demands on our national Government and the consequential scope of its deliberations, decisions and activities are far greater than the ministers can competently cope with, and far beyond the supervision of our Parliament, to which the Government is supposedly responsible."[†] While fully appreciating the dimension of the problems outlined by Mr. Stanfield, we are convinced that a number of important steps can, and should, be taken to strengthen the ability of Parliament to exact an effective accounting from government.

We were asked to consider not only systems and procedures to ensure effective accountability within the government for the administration of departments and agencies, but also, where appropriate, their accountability to Parliament. In part the inadequacies stem from the nature of the information provided by government to Parliament, in part from shortcomings in the procedures, organization, and processes of the constituent parts of Parliament, in part from the lack of a concerted will to render the

[†] Robert Stanfield, in *George C. Nowlan Lectures*, Acadia University, February 7, 1977.

government accountable both for its overall fiscal stance and the priorities that dictate it, and for the management of resources by individual departments and agencies.

Parliament has long been regarded as the guardian of the public purse. Because of its failure to live up to that expectation over the past several years, Parliament must accept some share of the blame, along with the Canadian electorate, for the troubles that now beset us. Not infrequently Members of Parliament have been found in the vanguard of those pressing for major increases in public spending. Objective consideration of the efficiency and effectiveness of government management has usually been the first casualty of the thrust and parry of partisan debate, although recently, in both the House of Commons and the Senate, some useful examinations of particular government programs and activities have demonstrated that this situation need not always prevail.

Full disclosure of all relevant information is an essential requirement for full accountability by government to both Parliament and the people. Over the course of a year, Parliament receives a massive volume of information from the many different arms of government, but the mass of information it receives is so overwhelming, complex, and often irrelevant that it fails to provide any basis for measuring the performance of departments and agencies against objectives. The "Blue Book" of Estimates, which sets forth the government's expenditure proposals for the next fiscal year, and the Public Accounts, which in excruciating detail tell the story of past expenditures, are prime examples of these shortcomings, which are compounded by the lack of comparability between the two documents. Annual reports of federal departments and agencies should be another prime source of information on which to base judgements of their respective performances, but in fact, most fall woefully short of the standards of disclosure normally required in the private sector under Parliament's own corporation laws.

A medium-term financial plan, which is essential to the management of public business, is regularly prepared by the Government for its own internal use, but no similar information on the projected course of government revenues, spending, and the resulting fiscal balance as they relate to the projected course of the economy itself is made available to Parliament and the public. As a result, both are denied any knowledge of the future direction foreseen by the Government for each of these interrelated ele-

ments, information that is crucial to the proper planning of both public and private affairs.

Throughout the body of our Report, we will deal in greater depth with these and other flaws and weaknesses in the organization, structure, and processes of government and Parliament in order to lay the groundwork for our proposals to help to overcome them. Our purpose here has been only to outline in the broadest terms some of the major defects that, in our judgement, seriously impair the effective working of Parliament and of government, defects that make it imperative to develop a new framework for "a mutually compatible management system".

3

A FRAMEWORK FOR "A MUTUALLY COMPATIBLE MANAGEMENT SYSTEM"

In the two previous chapters, we described the background to our inquiry and the context in which our recommendations were formed and in which they must be implemented. Because the issues we deal with in this Report are complex and the recommendations relating to them unavoidably numerous, we consider it important first to outline the major elements of the changes we are proposing.

In our terms of reference, we were directed to bring forward a set of recommendations that "form a mutually compatible management system appropriate to the requirements of government". In our judgement, such a system must comprise several closely interrelated and interdependent elements which take full account of the particular dictates of responsible government operating within the framework of our parliamentary system.

Such a system of management must unequivocally reinforce the capacity of Parliament to fulfil its historic and crucial role of calling ministers collectively and individually to account for their conduct of the nation's affairs. This must be matched by an increased capacity on the part of ministers collectively and individually to hold departments and agencies fully accountable for the efficient and effective discharge of their responsibilities.

The institution of sound management must begin with the establishment of goals and the assignment of relative priorities to them through the allocation of resources. The size, diversity, and complexity of government has long since passed the point where any highly centralized organization could possibly implement the great number of policies and programs that have been developed to achieve the multiple objectives of our governmental system. It thus

becomes essential to assign to individual departments and agencies the responsibility for meeting clearly specified objectives, to delegate the authority necessary to implement their mandates, and to provide the financial and human resources they require.

A fundamental requirement of such a system is that the constituent components of government be granted all the powers essential to manage their affairs in such a way as to undertake the responsibilities assigned to them as economically and as effectively as possible. The achievement of that purpose, in turn, requires the efficient management of the personnel appointed to administer the policies and programs of individual departments and agencies, and the equally efficient management of the other resources allocated for that purpose.

While the system we have described requires a substantial delegation of authority, it also demands the existence of central agencies equipped to assist ministers in the job of clearly defining the roles and objectives of operating departments and agencies, to provide strong leadership and direction to them as to the manner in which they should carry out their mandates, to establish common policies for administration within government, and to ensure that the operating bodies are soundly managed. By the same token, substantial delegation of authority demands a comparable degree of accountability for the use of that authority. Delegation of authority without accountability is an abdication of responsibility on the part of those conferring it, whether Government or Parliament. Such an accounting is a prerequisite for determining how effectively departments and agencies have employed the funds and manpower made available to them for carrying out their stewardship. In the rendering of such an account, the central agencies also have a critically important role to play.

Proper financial administration is a vital component of both management and accountability. As we pointed out in Chapter 2, financial considerations should be at the core of every phase of departmental activity. They should form an essential part of the planning process, the budgeting of resources to implement those plans, the control of subsequent expenditures, and the evaluation of the efficiency and effectiveness with which any activity has been undertaken. Sound financial administration is an essential instrument for the efficient management of the activities of departments and agencies. It is, however, equally important to the process of

accountability, providing senior departmental officers, the Government, and Parliament with a yardstick by which to judge results achieved in relation to the amount of financial and human resources devoted to the undertaking of any task.

The final element required to complete the establishment of a "mutually compatible management system" is the introduction of processes for exacting an accounting for performance, and applying the consequence of its outcome to individual processes that should extend throughout the ranks of every department, from those departments to the Government, and from the Government to Parliament and the Canadian people. There can be no proper accountability unless all information required to form a judgement about performance has been made available. An essential requirement of the accounting process, therefore, is the fullest possible disclosure of all relevant information both within government and by government to Parliament and the public.

The philosophy underlying our entire approach is not just that the managers of government should have the opportunity to manage the affairs that fall within their responsibility, but that they should be required to manage them in a way that will best serve the public interest. While the Glassco Commission insisted that managers be free to manage, it is evident to us that they have not been able to use this freedom effectively. It is for this reason that in our Report we have been at pains to develop with some precision the processes and procedures that we believe will enable them to manage and indeed, will require that they do so.

Management of Government

Our proposals for improving the management *of* government by the central agencies are directed to reshaping their roles, responsibilities, and structures. They have two objectives. The first is to forecast revenues, and determine appropriate expenditure limits and debt ceilings as they accord with present and prospective economic conditions and circumstances. The second is to ensure that full value is received for those public funds raised by government to carry out policies and programs for the public benefit. Central to the realization of both these objectives are two pivotal and interdependent proposals; the annual submission by the Government to Parliament of a five-year *Fiscal Plan*, and the

realignment of responsibilities between and within the major central agencies to bring responsibility for management to a focus. Our detailed recommendations in this area are developed in Part II, "Central Roles and Responsibilities."

A Five-Year Fiscal Plan Fundamental to the achievement of the sound management of government is the preparation of a Fiscal Plan designed to show where we are going, how we will get there, and what the financial consequences will be for Canadians. Such a Plan would also provide an early warning if the government's financial position began to deviate seriously from its charted course.

The Plan should be closely tied to medium-term economic projections and it should provide a prospective view over a five-year period—that is, the current year and the succeeding four years—of planned government expenditures by broad functional categories, a projection of revenues at existing tax rates, and the resulting implications of those two factors for the fiscal balance and the level of debt. To provide a yardstick for purposes of comparison, a similar breakdown of actual results for the previous five years should also be provided. It should also include ceilings on expenditures for individual departments and agencies for three years. The tabling of a Fiscal Plan would enable Parliament and the Canadian people to know the course the Government proposes to follow and the measures it intends to take to redress any gross imbalance in revenues and expenditures and to track the progress being made in the pursuit of those objectives.

The Fiscal Plan must be developed to reflect Government objectives and priorities in relation to anticipated economic developments and should form the basis for the allocation of financial resources to departments and agencies. It should be updated at least annually and revised as required to indicate the impact over a five-year period of budgetary measures or of changes in policies and programs that have major financial implications. No one, of course, would expect all the projections in the Plan to be met precisely, particularly those extending into the longer term. Nevertheless, it must be a carefully prepared view of the financial path the Government intends to follow, and deviations from it would require deliberate decisions by the Cabinet and be disclosed to Parliament. It must not be simply a collection of working assumptions or mechanical projections; this would not be a plan.

The Fiscal Plan would be presented to Parliament annually and referred to a new committee of the House of Commons, the *Standing Committee on Government Finance and the Economy*, in order to provide Parliament with the opportunity to focus on total government revenues, expenditures, the fiscal balance, and the public debt as they relate to present and projected economic conditions and the broad priorities of the Government. Committee consideration of the Fiscal Plan over a period of some weeks would enable both government and non-governmental organizations to contribute to the discussion of the economic and social implications of the Plan and the priorities associated with it. A subsequent report by the committee to the House would provide the basis for a short debate, during which it would be open to the Government to indicate any changes it was prepared to make in the Plan in light of previous discussions in committee or other public forums. The Plan should not be regarded as a matter of confidence, however, and should not be subject to a vote at the conclusion of the debate.

Essentially, our proposals are based on the related convictions that responsibility at the political level for the subject matter of the Fiscal Plan can only be vested in the most senior of Cabinet committees, that on Priorities and Planning under the chairmanship of the Prime Minister; second, that responsibility for establishing the government's fiscal position cannot be divorced from responsibility for setting expenditure limits for departments and agencies; third, that there must be a single focus for the Government's collective management responsibility; and, fourth, that the Fiscal Plan must be based on the best available information about the Government's priorities and objectives and the possibilities that exist for realizing them, both in terms of what the economy can support and of what can be done within government.

Because financial considerations must become a matter of paramount concern, the Department of Finance, as the central agency with primary responsibility for economic management, should be assigned the lead responsibility for the development of the Plan and for the fiscal position of the federal government. The Plan should be developed in concert with the secretariats of a reconstituted Treasury Board and the Privy Council Office, forming a closely knit team. The Plan should be submitted to the Cabinet Committee on Priorities and Planning with the full backing of the ministerial heads of these agencies. It should be

approved by Cabinet and become the stated Fiscal Plan of the Government.

The Plan should then become the basis for establishing the detailed spending proposals for the coming fiscal year that the Government submits for parliamentary approval in the form of the Estimates. To reinforce its authority as the agency primarily responsible for establishing the Government's fiscal framework, the Department of Finance should also be the lead agency, working in close co-operation with the other central agencies, in formulating recommendations to Cabinet on the overall limit to be imposed on government spending and the broad allocation of funds to functional categories of government expenditures and to individual departments and agencies in light of the Cabinet's established priorities.

In order to implement these changes, we are recommending that the Treasury Board be reconstituted to enable it to assume heavy new responsibilities for overseeing the management of government in all its aspects. Its role in the development of financial management in departments and agencies would be strengthened, and that involving personnel management would be expanded, to encompass the present responsibilities of the Public Service Commission for staffing and certain other personnel management functions. In recognition of its altered role, we propose that the Treasury Board be redesignated as the *Board of Management*. Its ministerial head would continue to carry the title of President, but we consider that he should be assisted by another minister who would serve full-time at the Board. This latter minister would be designated *Vice-President of the Board of Management* and would be involved primarily in assisting the President in the discharge of the Board's responsibilities with respect to personnel management. The Board would be served by two secretariats. The existing Treasury Board Secretariat would be renamed the *Personnel Management Secretariat* and its deputy head would be the *Secretary for Personnel Management*. The office of the Comptroller General would be renamed the *Financial Management Secretariat* and its deputy head would continue to carry the title of Comptroller General.

The Board of Management should be responsible for screening the detailed allocation of funds among various programs and other activities within individual departments and agencies. These detailed spending estimates should form the basis for the

implementation of departmental plans and the starting point for an accounting of their performance in achieving agreed objectives.

The new approach we are proposing, and the shift in the balance of responsibilities among the central agencies inherent in it, would significantly strengthen the ability of the Government to impose expenditure ceilings from the top, as opposed to the present system under which it is confronted by cumulative spending proposals derived from the incremental increase in the funds sought by virtually every unit of a department or agency.

The changes we are proposing with respect to the Treasury Board, including its renaming and the reorganization, are designed to clarify its role as the central agency responsible for effective management in government of both personnel and financial resources, and also as the primary instrument through which the Cabinet calls departments and agencies to account for how they have fulfilled their managerial responsibilities. While we think that the Board should assume a greatly enlarged role in providing leadership and direction to departments and agencies in an effort to improve substantially the quality of management throughout government, we are convinced that this cannot be brought about through ever-increasing control from the centre. The establishment of an effective accountability régime for departments and agencies will obviate the need for detailed controls. Put another way, the essential nature of the Board of Management's role is to *require managers to manage.*

Personnel Management If the Board of Management is to be able to carry out its total management role, one very major re-alignment is necessary among the central agencies. This involves the present responsibility for staffing the public service vested in the Public Service Commission.

The Treasury Board is responsible for establishing the terms and conditions of employment, classification, organization, staff training, and the allocation of manpower resources, and acts for the government in collective bargaining. At the same time, however, the ability of the Board to manage personnel is seriously impaired by the assignment of authority for staffing to the Public Service Commission, an agency that reports directly to Parliament and is, therefore, beyond the direct control of the Government.

We are recommending, therefore, that responsibility for staffing be transferred to the Board of Management. The new role we are recommending for the Public Service Commission is described

later. The Board will be supported in its personnel management responsibilities by the Personnel Management Secretariat headed by the Secretary for Personnel Management. Apart from supporting the Board in its personnel management responsibilities under the *Financial Administration Act* and now under the *Public Service Employment Act*, the Secretary for Personnel Management will share with the Comptroller General responsibility for departmental performance reviews.

Financial Management As head of the Financial Management Secretariat the Comptroller General's responsibilities should go well beyond those he was given when his office was established and the existing Financial Administration and Efficiency Evaluation Branches were put under his direction. The Comptroller General should oversee and supervise the continuing evaluation of the great bulk of government programs and other activities, which should be undertaken in order to assess their efficiency and effectiveness, and to determine ways and means of improving both where possible. He should also play an important role in assessing the overall performance of individual departments and agencies in fulfilling their management responsibilities.

The Comptroller General should screen the detailed allocation of resources by departments and monitor the carrying out by departments of particular program evaluations, according to standards set by him. In organizational terms this will mean that the Comptroller General will have to assume responsibility for the Program Branch and most of the Administrative Policy Branch or, generally, all non-personnel functions of the Treasury Board Secretariat. This will include responsibility for the format and content of the Estimates and the Public Accounts and standards of accounting and disclosure, and will require that the Comptroller General assume the accounting responsibilities now vested in the Receiver General. He should be assisted by an officer, to be called the *Chief Accountant of the Government of Canada*, who would also be responsible for directing the government accounting services now located in the Department of Supply and Services.

The Comptroller General should be empowered to oversee the conduct of internal audits by individual departments and agencies. The Audit Bureau of the Department of Supply and Services should be disbanded and most of its personnel assigned to departments or transferred to the Financial Management Secretariat, so

that the Comptroller General can carry out his audit responsibilities.

The Comptroller General should be charged with the responsibility for bringing about improvement in the type and nature of information made available through departmental annual reports. It will also be necessary, if he is to bring about substantial improvements in the quality of financial management throughout government, to give the Comptroller General a mandate to work closely with deputy heads in the development and training of their financial officers and to put him in a position to influence the selection of senior departmental financial officers.

Cash Management We are concerned that the development of the theory and practice of cash management that has taken place in the last decade in the private sector has not been paralleled in government. Given the Government's deficit position, and the interest rates it must pay for the money it borrows and that it can exact for the money it lends, we think that this is an area in which immediate action should be taken. To facilitate this we are proposing that the management of all of the government's finances, including the operation of the Consolidated Revenue Fund, be conducted by the Minister of Finance. Once this has been accomplished we would expect the Department of Finance to move to put the federal government's banking arrangements on a competitive basis and to ensure that accounting methods are improved so as to give recognition in departmental costing systems to the costs of borrowing.

Accountability for Performance One of the fundamental flaws in the present system is the almost total absence of any means by which departments and agencies are required to account for the efficiency and effectiveness with which they have employed the human and financial resources made available to them, or the attainment of goals set out in their departmental plans. To remedy this we are recommending that each year the Secretary for Personnel Management and the Comptroller General meet with each deputy head to review the performance of his department on the basis of his annual report, his own internal audits, and the program evaluations conducted under the supervision of the Comptroller General. On the basis of these documents and discussions, a report evaluating the performance of the department would be submitted to the President of the Board of Management and to the departmental minister after it had been shown to the deputy, who should

have an opportunity to append his own comments. A copy of the report should also be sent to the Privy Council Office and should figure in the evaluation of the performance of a deputy. At the end of this process, the President of the Board should submit a report to Cabinet providing an assessment of the state of management in the public service generally.

The Public Service Commission While we have considered it essential that all responsibility for personnel management be vested in a single agency, our recommendation divesting the Public Service Commission of its staffing authority was based on more than simply a desire for organizational purity. We were struck by the great potential for conflict between the two distinct roles which the Commission is now called upon to play. It is not doing justice to any notion of accountability to have the body which is supposed to be the independent watch-dog of the merit principle carrying a large measure of personnel management responsibility, the exercise of which could call that principle into question. We were also struck by the fact that parliamentary surveillance of management is weakest with respect to personnel matters. We attributed this to the absence of any office, similar to that of the Auditor General, to support the legislature in this area.

We believe that personnel management is too important for responsibility to be fragmented or for accountability to be incomplete. We believe that our proposals will correct both of these defects in the present system and will strengthen the protection afforded the individual public servant. Moreover, they will ensure better accountability for the protection of the merit principle and the preservation of an impartial public service.

Common Services are provided in government by the Department of Public Works, the Department of Supply and Services, the Bureau for Translations, the Government Telecommunications Agency, and the Crown Assets Disposal Corporation. There are some significant defects in the processes and organization of the system governing the provision of common services that detract from the possibilities for any meaningful accountability, go against the requirements of sound management, and lead to unnecessary conflicts between the common service organizations and other departments. The basic weakness in the system stems from the absence of a common understanding and acceptance both of policies respecting the responsibilities, objectives, and goals of the common service organizations and of common service policy itself.

The recommendations and proposals we have made to correct these defects are, in a number of cases, recommendations that have been made before. Their repetition in our Report will, we hope, spur their implementation.

Underlying our conclusions and recommendations with respect to the common service organizations is the belief that notwithstanding the role these organizations perform for the whole government—and the reason, therefore, why they are considered under the heading "Central Roles and Responsibilities"—the common service organizations are not central agencies. They are departments of government like all the others; they differ only with respect to their particular mandates. For this reason we reaffirm that the responsibility for common service policy should continue to be vested in the Board of Management and that client departments should continue to be responsible for defining their own requirements in accordance with policy set down by the Board.

We consider that accountability and sound management demand that common service organizations be made revenue dependent, that they base their rates on a full-cost approach, and that funds for all goods and services provided by them be part of the Estimates of client departments. Because of the exclusive mandates for the provision of goods and services which the common service organizations have to have, we believe that approval of their rate structures should only be given by the Board of Management after annual open hearings at which alternative suppliers from the private sector as well as program departments and the common service organizations themselves would be able to state their cases.

Lastly, we have made a number of recommendations for bringing most common service organizations, with the exception of the Department of Public Works, together in the Department of Supply and Services under a single deputy minister and for increasing the visibility of those few specialized services which we agree can be allowed to remain in their host departments.

Management in Government

One of the basic purposes of the changes we propose at the centre of government is to provide it with the means of substantial-

ly improving the efficiency with which the operating departments and agencies deliver goods and services for the benefit of the Canadian public. The embedding of accountability in the governmental system would by itself provide an effective spur to efficiency. To achieve the optimum results, however, it is essential that changes at the centre in the management *of* government be matched by equally far-reaching changes in management *in* government. Our detailed recommendations in this area are developed in Part III, "Departments."

We believe that the weaknesses in the management of a number of departments and agencies stem from a failure to delegate sufficient authority to enable these organizations to manage their affairs in the pursuit of clearly defined objectives. More important still, management is weak as the result of a failure to establish the means for calling departments to account fully for the manner in which they have used their authority and resources to achieve those objectives.

Our recommendations with respect to departments start from the premise that ministerial responsibility as a cornerstone of our constitution has to be reconciled with the fact that most ministers are now not only isolated from the day-to-day operations of their departments, but also have little involvement in overseeing the management of departmental affairs generally. We concluded that any defence of ministerial responsibility that did not take into account the real and independent role of the deputy in the administration of government would ultimately prove destructive to the doctrine itself. We have aimed, therefore, at bolstering the responsibility and authority of both the minister and the deputy, by emphasizing the complementary facets of their roles while, at the same time, increasing the accountability of each to Parliament.

We have proposed that the deputy be made formally responsible for the administration of departmental activities based on goals and objectives agreed with the minister. By the same token, the minister would also be expected to assume greater responsibility to the Ministry collectively, and to Parliament, for ensuring that plans of the department, including its spending plans, are soundly conceived and the management of its affairs effectively conducted. At the same time, the minister's capacity to fulfil that role would be strengthened by the information flowing to him as a consequence of the implementation of our various recommendations.

Although the system we propose would increase the accountability of the minister to Parliament for the broad conduct of departmental business, it is our judgement that the deputy head should be directly accountable before Parliament for matters of daily administration that fall under his responsibility. In recognition of his role and responsibilities, we are recommending that the deputy be designated *Chief Administrative Officer* of the department and be liable to be called before the Public Accounts Committee of the House of Commons to render an accounting for his administration.

Formal recognition of the administrative role of the deputy and the exacting of accountability for administrative performance must be accompanied by changes in the processes by which deputies are appointed and their personal performance appraised. Our first conclusion with regard to these inter-related processes was that managerial performance did not figure nearly largely enough in them. Second, the frequency with which deputies in the past were shifted from one position to another militated against good management. We have recommended, therefore, that the deputy heads of the Board of Management Secretariats be consulted on all deputy head appointments and that there be a minimum period for which deputies would normally be expected to serve in a given department.

While we found that significant improvements have been made in the appraisal process, we concluded that there was still some distance to go. That we are not alone in this conclusion is shown by the fact that the Privy Council Office is already planning further improvements. Our recommendations in this area are aimed at overcoming problems of lack of motivation among deputies, lack of understanding of performance objectives, and lack of confidence in the evaluation process. We think that this objective can be attained through a comprehensive and systematic approach to developing performance objectives and keeping them up to date. Further, it is necessary to open up the process to deputies and allow them to gain a good understanding of how it functions and what it produces. Moreover, the minister, the member of government with whom the deputy has the closest working relationship, must become a more active participant in the deputy's evaluation.

The deputy's performance will depend to a large extent on the manner in which he is able to adjust departmental planning to take account of the Fiscal Plan, expenditure limits, and changes in the

format and content of the Estimates. To ensure that departments benefit from these new processes that we have proposed at the centre, we are recommending that Program Forecasts be discontinued and be replaced by *Departmental Strategic Plans*. These would be medium-term projections at the departmental level analogous to the Fiscal Plan. Departments should also develop *Statements of Operational Goals*, short-term plans. Both would be internal, departmental documents which would be used in support of the Estimates submission to the Board of Management, but would not require central agency approval.

Our proposals for the structures and procedures required to produce these documents would necessitate an end to the present situation in which senior financial and personnel officers in departments are often not even part of the senior management team and have no voice in, or influence on, planning. It is essential that these officials become members of the departmental management committee and that this group be responsible for developing plans and structures that support and reflect a chain of accountability within the department.

Because of the very different nature of these plans from Program Forecasts and Estimates as now prepared, we are proposing that the screening of Estimates carried out by the Financial Management Secretariat be management oriented, rather than concerned, as is the case today, with totals. Expenditure totals will have been settled in the Fiscal Plan; therefore, the Comptroller General and the Secretary for Personnel Management will be able to focus on making the screening a review of how the department has responded to suggestions for change and of how it is being managed generally.

In order to relate the Estimates approval process to accountability, we are proposing an end to the present unsatisfactory situation in which ministers and their deputies attend the Treasury Board meeting at which their Estimates are discussed only when there is a contentious matter to be settled. We think that the distrust which prevails in so many cases today between departments and the Treasury Board can only be dispelled if there is complete openness on both sides. This has to start with ministers and their deputies displaying their complete commitment to what is submitted in their names to the Board and in the Board holding them accountable. This can begin through ministers and deputies themselves going through their Estimates submissions with the

Board in the presence of the heads of the Board's two Secretariats.

The extent to which a deputy can be held accountable must be a function of the extent to which he controls the factors affecting his performance. Chief among these is the organization and composition of the management team; yet, we have found that the deputy probably has less authority in this area than in any other. The thrust of our recommendations, therefore, is to give the deputy the authority to deploy and re-deploy his management team. This means authority to organize, to classify positions, and to staff. The deputy should have all the necessary authority with respect to positions up to, but excluding, those reporting directly to him. Action with respect to the most senior positions would require the approval of the Secretary for Personnel Management. Similarly, managers within departments should be able to approve personnel actions with respect to positions two levels below their own, but should have to get the approval of their immediate superiors for actions involving their immediate juniors.

Personnel operations are so critical to the success or failure of departmental operations that we believe that the senior personnel officer in a department should report directly to the deputy and should invariably be a member of the departmental management committee. This will reinforce the deputy's direct involvement in this area and will justify making the manner in which he has discharged his personnel management responsibilities a major factor in his evaluation.

When we looked at financial management in departments we found that the problem was not one of lack of authority, but rather of a fundamental failure to comprehend the nature, purpose, and techniques of financial management at the senior levels of government. It is not an exaggeration to say that, in most departments, financial management considerations do not enter into the senior management decision-making process. Apart from lack of knowledge about the significance of financial management on the part of managers, we also found that there were other problems related to the organization of financial management in departments and the qualifications of financial personnel.

Our recommendations are directed to these three areas. First, we believe that attitudes and knowledge of senior managers can be improved by laying emphasis on financial management in various career development programs. Part of the problem is that courses for senior managers have not dealt with the subject. Second, we

believe that the senior financial officer in the department must be recognized as a senior member of the management team, reporting directly to the deputy minister, and given clear functional authority over all financial staff. He will have to be backed up by the Comptroller General and given an explicit mandate to take part in various departmental activities, at least until attitudes become altered enough to accept his involvement without question. Third, the qualifications of financial personnel will have to be upgraded over time through changes in position classifications and the provision of special training.

To enable departments and agencies to establish the financial management systems best designed to meet their individual requirements, we propose that they be given greater latitude in developing their own management information systems, under the supervision of the Comptroller General. The systems are at present to a considerable extent locked into central systems designed essentially to meet the accounting requirements of Parliament and of various other government agencies. These central systems are ill suited to the development of the type of management information essential to planning, decision-making, budgeting, controlling, and evaluating performance. Individual departments and agencies should be empowered to develop their own financial information systems, subject to supervision by the Comptroller General, so that the dual requirements of relevant departmental management information and a compatible form for recording the accounts of government as a whole are met.

Auditing is an important element of financial management. At present, departments and agencies are subject to review by the Auditor General and by a number of central agencies. Internal audits by departments and agencies tend to be narrow in scope and confined largely to matters of probity. We propose that under the direction of the Comptroller General, the scope of the internal audit be expanded to cover financial, personnel, and administrative areas now audited by other agencies within government. The audit should be concerned not just with seeking out irregularities, but in probing for practices that lead to waste and inefficiency.

An important aspect of our proposal involves the establishment of an *Audit Committee* composed of four members, at least two of whom should come from outside the public service. The internal auditor, in addition to having direct access to the deputy head, would report to the Audit Committee, and those reports

should be submitted by the deputy head to the minister. We want to make it clear that we regard these proposals not as an addition, but as a rearrangement of the audit process by locating it within the departments.

Crown Agencies

While the major operations of government continue to be entrusted to departments, we were also charged with examining the numerous entities variously termed Crown corporations, regulatory and deciding boards, commissions, and tribunals, and collectively referred to as "Crown agencies". There are close to 400 separate and distinct Crown agencies, some of them founded on statutes of their own, many of them subsidiaries of parent bodies, and others so closely akin to private sector organizations that their governmental or public status is not at all clear. In examining the bewildering array of Crown agencies we have found that existing provisions for classifying them and for accountability for each category have been rendered obsolete. The resulting state of confusion, if left unattended, will seriously impair the value of these agencies as instruments of public purpose and do further damage to the tenuous and sometimes obscure accountability links that, in varying degrees, they now have with the Government and Parliament.

Accordingly, in Part IV of this Report, we have endeavoured first to bring order to the ranks of Crown agencies and then, for each of our proposed categories, developed a régime of accountability. We believe there are genuine advantages for governments having at their disposal such flexible instruments which, for many valid reasons, are better situated than departments to serve unique entrepreneurial, regulatory, adjudicative or advisory functions at one remove from government. However, it is their separation from the conventional hierarchical structure of direction, co-ordination, and control exercised by ministers and the central agencies that gives rise to the need for disentangling their confused accountability relationships and ensuring that, for all their separateness, they still remain a part of the Government of Canada.

In recent years, because of the growth in numbers and varieties of Crown agencies, there has been a mounting concern

with them, expressed most notably in the reports of the Auditor General, the Public Accounts Committee, and further elaborated with respect to one important category of Crown agencies by the Government in a Privy Council Office paper entitled *Crown Corporations: Direction, Control, Accountability* (hereafter referred to as the "Blue Paper"). While our report and recommendations address the same issues, our approach differs in a number of important respects which we will outline in Part IV. In addition, our approach is more comprehensive in that it seeks to provide a classification that will embrace *all* Crown agencies, distinguishing them from departments and making distinctions among them.

The re-ordering of departments and Crown agencies that we recommend, and which is set out in Appendix A, comprises four major categories. The first of these includes *Ministerial and Other Designated Departments,* and the remaining three separate Crown agencies into *Independent Deciding and Advisory Bodies* (e.g. the National Energy Board), *Crown Corporations* (e.g. Air Canada), and *Shared Enterprises* (e.g. the Canada Development Corporation). On the outer margins is a collection of entities we refer to as *Quasi-public Corporations* which we do not include in our categories but which, nevertheless, cannot be totally disregarded by the Government. Our proposed categorization will require extensive modification of the Schedules to the *Financial Administration Act,* which constitute the only classification scheme we now have. In our view these schedules are inadequate, not only because they fail to include a large number of Crown agencies and are not particularly consistent in the categorization of those agencies they do cover, but because the classification is directed almost entirely to financial matters and not to the broader elements of accountability that we believe should prevail.

Our proposed plan is presented not merely to impose logic and consistency on a badly disordered system—necessary and desirable as that may be. Such a plan is also a necessary prelude to arriving at a series of discrete accountability régimes that will establish clear, consistent, well-understood, and accepted roles and responsibilities for all of the major participants.

The starting point for such accountability régimes for Crown agencies is precisely that which we identify for departments: clear and unequivocal mandates that assign tasks, confer powers, and identify who is responsible for what. With respect to all Crown agencies, save for those in the *Shared Enterprises* category, we

take the position that as agencies or instruments of declared public policy, they must be ultimately subject to the direction of Government, for, in the end though less directly than for departments, Government must accept responsibility for the interpretation to be placed on public policy. We exclude *Shared Enterprises* from this general statement because, unless there is constituent legislation that states otherwise, the Government should not be given rights over and above those conferred on its partners in the enterprise.

The ultimate power and duty of the Government to guide its Crown agencies must be exercised in accordance with legislated mandates, for to argue otherwise would be in derogation of Parliament's will as declared in legislation. However, excessive intervention by the Government also runs the risk of depriving the Crown agency of the freedom to undertake its assigned tasks, thereby undermining the rationale for using the non-departmental form. Obviously, a delicate balance must be found, and in our analysis and recommendations concerning the use of the directive powers by Government for Crown agencies, we trust that we have struck a proper balance between the autonomy necessary to each type of agency to perform its assigned task, and the duty of the Government to ensure that in pursuing such tasks the agencies are acting in conformity with declared public purposes and policies.

With respect to that group of Crown agencies we have categorized as *Independent Deciding and Advisory Bodies,* their claim to autonomous status is predicated on the need to preserve an arm's length relationship with Government in order to fulfil deciding, regulatory, and adjudicative tasks objectively and without danger of direct partisan interference. For such agencies we are proposing that the Governor in Council have the right under law to issue directives on matters of broad policy only. Such directives, before being issued, should be the subject of a public hearing, should be published in the *Canada Gazette*, and tabled in Parliament. At the same time, the right of appeal to the Cabinet from specific decisions of deciding bodies, except those involving the rights of individuals, should be abolished because it is contrary to the purpose for which independent tribunals are established. With the closing of this avenue of appeal, it would be fully open to the Government or individual departments to appear before such tribunals to present their positions.

For our category of *Crown Corporations* we propose that the Government should have authority to issue directives, subject to

compensation when appropriate, and that these directives be tabled in Parliament. The power of ministerial direction should be viewed as an instrument of last resort. For on-going surveillance of the path or direction being taken by *Crown Corporations,* we attach greater importance to the introduction of *Corporate Strategic Plans*. After approval by the board of directors such plans would constitute the medium for communication between the corporation and the designated minister, thereby providing the opportunity that is now lacking for Government to be fully apprised of the directions being pursued or planned, with a corresponding opportunity to reconcile possible emerging differences between the corporation and the Government.

While mandate and direction are two important elements for an accountability régime, the third element, control, touches the most sensitive issues in the relationships that should exist between the Government and its Crown agencies. Excessive control by Government can rapidly undermine the raison d'être of a Crown agency and the intent behind all our recommendations in this area is to minimize such controls. In general, we have sought to de-emphasize those governmental controls that would apply to the activities of a Crown agency and to lay greater stress on controls that can be applied, as it were, before or after the fact.

In this respect, clear mandates and instruments for adjusting the direction taken by a Crown agency can be viewed as examples of *a priori* controls. However, the Government's power to appoint the members of Crown agencies is the most potent and immediate of these types of control. For this reason, we have focussed on the mode of selection, terms of appointment and removal, and evaluation of performance of the members of commissions and boards of directors.

We observe that one significant difference between a departmental organization and a Crown agency organization is that, in the case of the latter, the mandate is devolved on a collectivity—a commission or a board of directors. This collective responsibility underlines the importance of the appointment power vested in the Government.

For *Independent Deciding and Advisory Bodies*, we recommend the adoption for all such agencies of appointment for fixed term, subject to removal for cause—as opposed to tenure "at pleasure"—as a method of ensuring the independence of the members of such bodies. We further endorse, and propose as a

general practice, the conferring on the chairman or head the care and management of such bodies. In this respect, we believe that the autonomy of the board is not impaired by imposing on the head, as chief executive officer, the same accountability requirements as we are recommending for deputy ministers. For purely management purposes, in short, we do not see the need to vary the accountability régime that will apply to ministerial departments.

Crown Corporations also receive their mandates, powers and duties as a collectivity. However, the care and management of the enterprise constitutes the mandate of the corporation, and is not merely a "housekeeping" adjunct to its primary tasks as is the case with *Independent Deciding and Advisory Bodies*. As a consequence, the pertinent provisions of an accountability régime for *Crown Corporations* must be substantially different from those we are recommending for the other groups of Crown agencies. The primary thrust of our recommendations here is predicated on the conclusion that the Government is not obtaining full value from its Crown corporations as instruments of public purpose. While with one hand the Government has devolved important tasks and powers on them, with the other it has subjected them to controls that have left boards uncertain about their roles and confused about their responsibilites: a good recipe for lack of accountability all round.

We recognize that the position of a corporate board in a governmental setting is different from the position of its counterpart in the private sector with respect to its shareholders. Nevertheless, we believe that this difference can be accomodated and yet, at the same time provide a clearer focus for those matters over which any board of directors, whether operating in the private or public sectors, should have control. The most important of these relates to the directing and management functions assigned to the board, the recognition of which requires that the board have the primary responsibility for selecting and holding to account its chief executive officer. With some important exceptions, this power is not now exercised by the boards of Crown corporations. Accordingly, while we are recommending that the Governor in Council continue to appoint members of boards of directors and chairmen of boards for staggered terms, we are recommending that the appointment of the chief executive officer, subject to Governor in Council confirmation, be vested in the board of directors.

Further reinforcement of the prerogatives of the board of directors will also be found in our recommendations concerning the formulation of Corporate Strategic Plans, the format for presenting capital and operating budgets, corporate policies, and by-laws including codes of ethics, and the form of their annual reports. If indeed it is the Government's intention, as expressed in the Blue Paper, to impose on members of boards of directors the same duties and obligations that apply in all corporations founded on the *Canada Business Corporations Act*, then boards must be seen to have control over such matters. They must be particularly cognizant of the requirement that directs them to pay due regard to the interests of the corporation. Where governmental directives are imposed on them which they are obligated to implement in the name of serving the public interest, even though in their best judgement such directives run counter to the corporation interests, they should be held blameless.

Turning, finally, to the fourth element in a sound régime of accountability —evaluation and reporting—we are recommending a periodic review, statutorily imposed on the designated minister, of the performance of all Crown agencies in the *Independent Deciding and Advisory Bodies* and *Crown Corporations* categories. This review will constitute the basis for the appropriate standing committee of the House of Commons to render a verdict on the direction pursued, and will permit a measurement of accomplishment against declared mandates and corporate plans, with a view to approving, modifying, or even recommending the abolition of the organization. Such periodic reviews, which we suggest should occur for each agency not less than once every ten years, will not be a substitute for the continuous surveillance by Parliament, through its committees, of the annual performance of such agencies. Disclosure, particularly for *Crown Corporations*, should be as complete and comprehensive as that which is required by law from private sector corporations.

Parliament

Under our system, Parliament must be the beginning and the end of the governmental process. It must scrutinize and approve all legislation and all proposals for the raising of revenues and the

expenditure of funds, and must watch over the Government's implementation of the proposals to which it has assented. We think that Members of Parliament have not been adequately fulfilling their duty of forcing the Government to account for its administration. We are convinced, however, that changes can be made in the instruments and procedures of Parliament itself which would greatly improve its capacity to deal with its business in an orderly way.

The starting point is the five-year Fiscal Plan, which the Government should be required to submit annually to Parliament and to revise as necessary to reflect changing conditions and circumstances. The submission of such a Plan to the House of Commons would provide Members with an opportunity to focus on the Government's broad priorities and on its short and medium-range projections with respect to total expenditures, revenues, the fiscal balance, and debt levels in relation to projected economic developments. The reference of the Fiscal Plan to a new Standing Committee on Government Finance and the Economy would provide Members with a chance to question government spokesmen about the considerations that lie behind the Plan, and to seek the views of others inside and outside government. A subsequent two-day debate in the House of Commons based on the Committee's report would provide an important opportunity to focus on the proposed directions of the Government.

The Fiscal Plan should provide an important perspective against which the annual spending plans contained in the Estimates of departments and agencies will be considered by the various standing committees of the House. In addition to considering the Fiscal Plan, the proposed Standing Committee on Government Finance and the Economy should examine the Estimates for the Government as a whole and the Estimates of the Department of Finance. This committee should also consider all tax legislation and the implications for the Plan of all other legislative proposals.

In our judgement, a number of changes can be made that would substantially improve the effectiveness of Parliament in carrying out these tasks. We suggest that the Comptroller General be directed to develop a form of Estimates and Public Accounts that would provide far more relevant and meaningful information with respect to linking proposed goals and objectives with the financial and human resources that Parliament is being asked to approve, and with respect to accounting for the results that have

actually been achieved. This information should be complemented by the submission to Parliament by departments and agencies of annual reports that provide the fullest disclosure of their performance, particularly in relation to goals spelled out in the Estimates. These reports should be automatically and permanently referred to the appropriate standing committee of the House of Commons. By "automatically and permanently referred" we mean that as soon as they are tabled these documents would be deemed to have been referred to committee and could not, at a later date, be barred from the committee's consideration.

In addition, Parliament's capacity to judge the efficiency and effectiveness of the operations of government departments and agencies should be significantly reinforced as a result of legislation in 1977 expanding the role of the Auditor General.[†] Under this legislation, the Auditor General is required to report to Parliament instances where money has been spent "without due regard to economy and efficiency". He is also directed to report on cases where "satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented". The Public Accounts Committee would be expected to focus both on management policies, guidelines, and practices extending throughout the government, and on the efficiency and effectiveness of the financial and personnel management of individual departments and agencies.

The capacity of Commons committees to deal with the business coming before them can also be increased. We suggest that the number of standing committees of the House be reduced in order to lessen demands on the time of Members for committee meetings and to provide a more coherent and systematic structure of committees to deal with the nation's business. In addition, we believe that the number of Members appointed to most standing committees could also be reduced to no more than 15 as a further means of decreasing demands on Members' time without impairing the effectiveness of committee operations. Indeed, we consider that a revision in the present mode of operation to allow for examination of issues in greater depth would considerably increase the effectiveness of Commons committees.

[†] Canada. Parliament. *Auditor General Act*. 1977.

Much of the work of standing committees now tends to be concentrated in a relatively short time. It should be possible to extend committee sessions over a longer period in order to enable them better to focus on the Government's management of public affairs. The effectiveness of committees in carrying out their work could also be significantly increased by the provision of adequate staff support to be paid for from a budget supplied to each committee and under the control of its chairman.

The chairmen of committees have an important role to play in guiding committee activities. The importance of their responsibilities should be recognized by providing them with additional compensation. To enable them to develop a thorough understanding of the complex issues coming before their committees, chairmen should normally be elected by the committee for the life of a parliament. The present rapidly shifting membership of standing committees works against the benefits to be gained from continuity and experience and we suggest that consideration be given to stabilizing committee membership.

It is not realistic to expect standing committees of the House to make major changes in departmental and agency Estimates for the fiscal year under consideration. However, it should be possible for them to exercise strong influence over a longer term, especially in cases where it can be demonstrated that value is not being obtained for the expenditure of public funds. Furthermore, we believe that Parliament's capacity to exercise that type of influence could be considerably enhanced through the conduct of periodic reviews of the operations of Crown agencies and the impact of major programs. We consider that a modified "sunset" approach should be adopted in the case of statutory programs to ensure that they are periodically re-examined and re-assessed by Parliament. We propose that the legislation establishing all new statutory programs, other than those relating to the public debt, provide for funding to lapse at the end of five years and that it be subject to renewal only after Parliament has examined the current costs and benefits of such programs. We advocate in the case of existing statutory programs, again excepting those involving the public debt, that the responsible minister be required to submit an evaluation of their effectiveness to Parliament within the next ten years and thereafter every five years. The minister's report should be automatically and permanently referred to the appropriate standing committee of the House.

Parliament's capacity to exercise an influence over the Estimates and, more particularly, to press its grievances before the granting of Supply, has undoubtedly been reduced by the changes in the rules and procedures of the House adopted in the latter part of the 1960s. Under the previous rules, the Estimates of all departments and agencies were subject to approval by Committee of the Whole. Because it was under no time constraints, this committee of Supply offered members of the opposition parties a powerful means of imposing pressure on the Government to answer their complaints. Under the revised system, 25 days were allotted to opposition parties for debate in the House on any issue of their choosing. Departmental Estimates are referred to standing committees of the House for consideration, but are deemed to have been approved by May 31 of each year whether or not they have in fact been adopted in committee.

While the previous system clearly absorbed more time of the House than it could properly afford to devote to matters of Supply, the present system creates a balance that unduly favours the Government. As a result of the automatic reporting of Estimates back to the House from committee by May 31, there is no obligation on the Government even to respond to grievances, let alone to take action to meet them. In our opinion, a somewhat better balance would be struck by restoring the practice instituted in 1975 by way of experiment under which an opposition party could choose to require a debate in Committee of the Whole on the Estimates of a given department or agency on one of its allotted days. In addition, standing committees should be permitted to recommend the partial reduction of an item of expenditure.

Earlier in this chapter, we outlined the proposals we intend to develop to strengthen the capacity of ministers collectively and individually to exact an accounting from departments and agencies on their management performance. As a corollary, we think that the liability of ministers collectively and individually to account to Parliament should increase commensurately. The Government must accept responsibility for its overall financial position and for the efficiency and effectiveness of management generally within the public service.

Individual ministers must immediately accept responsibility for the management, in broad terms, of the departments and agencies under their control. At the same time, however, we think

that the minister's responsibility must be shared with the deputy, who should be accountable to Parliament through the Public Accounts Committee as the chief administrative officer for the day-to-day operations which are, in practical terms, beyond the minister's control. This assignment of responsibility to the deputy does not impair the principle of ministerial responsibility, but reinforces it by replacing myth with reality.

PART II

CENTRAL ROLES AND RESPONSIBILITIES

4

COLLECTIVE MANAGEMENT RESPONSIBILITY

The establishment of a "mutually compatible management system appropriate to the requirements of government" begins at the centre. It is the Ministry as a whole, the Government, that must establish and direct the processes, organization, and structure that govern the operations of the myriad departments, agencies, Crown corporations, and other bodies which carry out the day-to-day business of the Government of Canada. In subsequent sections of our Report, we deal with management within departments and agencies; with management *in* government. Before doing so, however, it is essential to establish the fundamental framework within which those constituent parts should operate. This requires a determination as to how the Ministry as a collectivity that forms the centre should be organized and how it should function in order to provide the most effective management *of* government.

The preamble to the *British North America Act* declares that Canada shall have "a Constitution similar in Principle to that of the United Kingdom" and, in line with the British constitution, the authority for the Government of Canada derives from the Crown. The BNA Act states that "the Executive Government and Authority of and over Canada is . . . vested in the Queen". It further declares that "all Powers, Authorities, and Functions . . . shall . . . be vested in and exerciseable by the Governor General, with the Advice or with the Advice and Consent or in conjunction with the Queen's Privy Council for Canada, . . . *subject nevertheless . . . to be abolished or altered by the Parliament of Canada*".*

* our emphasis

In practice, of course, the authority of the Crown is exercised today, as it was in 1867, by those members of the Privy Council who, as ministers, collectively constitute the Cabinet. It is the Cabinet, then, that provides the vital link between the Crown and Parliament. But, while ministers are, with rare exception, Members of Parliament, the Cabinet cannot be viewed in any sense as a committee of Parliament. Ministers are officers of the Crown, from which they derive their authority to govern. This authority residing in the Cabinet, however, is counter-balanced by the ultimate supremacy of Parliament in all matters that come within federal jurisdiction.

The essence of our system is that, on all important issues, the Cabinet tenders its collective advice to the Crown through the Prime Minister. While the Cabinet's authority to act comes from the Crown, its continued ability to exercise power depends crucially on its continued maintenance of the confidence of Parliament. Ministers are accountable to Parliament for the exercise of their individual responsibilities. But ministers also share a collective responsibility to Parliament. Their continuation in office depends on Parliament's support.

Like the Cabinet, the role of the Prime Minister reflects the development of constitutional usage and practice rather than statute. But the Prime Minister has come to assume a special role in the Government. He has the prerogative of nominating the ministers who make up his Cabinet and recommending appointments by the Governor in Council, such as those of deputy ministers and officials of Crown agencies. He controls the agenda of Cabinet, the membership of Cabinet committees, and the organization of government and, in addition, he must sign draft bills on behalf of the Cabinet before they can be introduced into the House.

The holder of the office of Prime Minister, of course, is also bound by a number of constraints. In seeking to develop a balanced Ministry, he must take account of many different interests, not the least of which is regional representation. Generally, he must seek a consensus that will carry the support of the majority of his colleagues and of his own supporters in the House of Commons.

Nevertheless, the Prime Minister occupies a pre-eminent position that confers upon him general responsibility to Parliament and to the people for the policies and management of the Govern-

ment. Throughout our deliberations, we have been conscious of the need to maintain that pre-eminent position of the first minister. At the same time, however, it is also evident that the Prime Minister alone cannot exercise the collective responsibilities of the Cabinet for the governing of the nation.

The collective responsibility of ministers is most clearly reflected in financial matters. The authority to raise taxes and make expenditures is granted by Parliament only on the recommendation of the Governor General; in effect, the Cabinet recommends. Far more than money is involved, for such decisions are a reflection of the Government's underlying priorities and policies. The financial management of government is also a collective responsibility of the Cabinet, being entrusted under the *Financial Administration Act*, not to an individual minister, but to the Treasury Board which is a committee of Cabinet.

Some have argued that the widening area of collective responsibility that has developed over the years has detracted from the individual responsibility of ministers to Parliament and, in the process, concentrated an undue amount of power in the Prime Minister. In our view, however, the breadth and depth of government today have become so far-reaching that they demand the exercise of collective responsibility at the top, not only for the formulation of broad priorities and policies of the Ministry, but also for overseeing the government-wide management systems whose purpose is to give effect to those priorities and policies. At the same time, it is evident that certain ministers at the centre must jointly or individually assume a lead role in the exercise of the collective responsibility of the Cabinet for the management of government—the Prime Minister, the Minister of Finance, and the President of our proposed Board of Management. It is important that the particular responsibilities of each should be clearly stated both to facilitate the internal processes of government and to establish who should be called on to render a full accounting to Parliament.

The sound management of government, like that of any other human endeavour, requires that certain basic operations be carried out. These are planning, budgeting, directing and co-ordinating, controlling, and evaluating. The essential first step involves the development of a forward plan which, within the framework of decisions about the amount of revenue to be available and total expenditures to be made, would determine how resources should be

allocated to implement policies and programs that reflect the Government's priorities. Budgeting involves decisions on the detailed allocation of funds that should be made in order to put those policies and programs into effect as efficiently and as effectively as possible. Controls are required to monitor the implementation process in order to check performance against objectives, to ensure the consistency of standards across government, and, if necessary, to apply appropriate correctives. Finally, the outcome of these activities must be subject to evaluation to determine whether they were conducted as economically and effectively as possible.

Having determined its priorities, established a fiscal plan, and allocated resources for carrying out the policies and programs formulated to give effect to its priorities, the Ministry must assign to departments and agencies responsibility for implementing its plans. While it may establish certain guidelines and controls and reserve certain rights as to direction, it should be up to the individual departments and agencies to manage their affairs in a way that will best achieve the objectives assigned to them with the resources available. What is crucial to this system of management is that the centre should hold the constituent parts to account fully for the manner in which they have discharged the responsibilities assigned to them. Parliament, in turn, should hold the Government equally accountable for the management of the nation's affairs.

Different organizations and individuals within the political structure now have particular roles to play with respect to the exercise of the collective responsibility for various aspects of the management of government. These include the Cabinet Committee on Priorities and Planning under the chairmanship of the Prime Minister, the Treasury Board, under the chairmanship of its President, and the Minister of Finance. Each of these entities at the political level is supported by a central agency within the public service; the Privy Council Office, the Treasury Board Secretariat and Office of the Comptroller General, and the Department of Finance. A fourth important central agency, the Public Service Commission, falls outside the structure we have just described because it is responsible only indirectly and only in part to the Government, but nevertheless exercises important responsibilities bearing on the management of personnel within the public service.

The Cabinet Committee on Priorities and Planning was established in 1968 to answer "a serious need (for) a systematic assessment of overall priorities of expenditure with a view to better long term planning".† Its

> scope . . . is now more inclusive than the mainly financial aspects of policy. It gives special attention to the broad objectives of the government and to major questions of policy having long term implications. It is in that committee that the basic decisions on objectives and strategies are taken, for recommendation to the Cabinet. A very important aspect of these is, of course, deciding the general priorities of the government for the allocation of financial resources and, in the policy discussion of other Cabinet committees, the determination of such priorities is obviously related to and conditioned by the decisions as to policies and strategies. The priorities are set in broad terms: objectives to be achieved, the amount of effort and resource to be directed toward each, the increase or decrease in the emphasis to be accorded to general areas of government action. It is on the basis of such broad decisions that the Treasury Board determines in detail the funds to be made available for specific programs administered by the various departments and fixes the personnel establishment to be allocated to them.

The *Financial Administration Act* gives the Treasury Board a legal basis as a committee of the Privy Council, the only committee of the Cabinet that is not set up on the prerogative of the Prime Minister. Under Section 5(1) of the Act, the Treasury Board is given responsibility for administrative policy; the organization of the public service; financial management (including Estimates); program and expenditure plan review and priorities; and, personnel management in the public service.

The Minister of Finance, under Section 9 of the *Financial Administration Act,* is entrusted with "the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other Minister". In effect, he represents the collectivity in Parliament in the process of gaining legislative approval for budgetary proposals relating to the raising of funds through taxation or borrowing.

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† Gordon Robertson, "The Changing Role of the Privy Council Office." A Paper presented to the 23rd Annual Meeting of the Institute of Public Administration of Canada, Regina, September 8th, 1971, reprinted by Information Canada under the imprint of the Privy Council Office, 1971, p. 10.

According to a statement from the Department of Finance, he "has traditionally taken the lead role in recommending the level of the total outlays target in relation to general economic considerations"† as part of the annual fiscal memorandum which he submits, along with the President of the Treasury Board, about one year in advance of the fiscal year to which it relates. Later, towards the start of that fiscal year, in the preparation of his budget, he takes "decisions as to tax changes or other revenue measures, and the decision as to the balance of outlays and receipts which appears appropriate."

"The Minister and Department also have a significant role in decision-making on individual programs. The Minister is a member of Cabinet committees which review proposals in economic areas, and is well placed to take a view as to how individual programs in particular areas relate to each other and to the government's general economic policy objectives." The paper also emphasizes, however, "that the Department's interests in the individual program expenditure area are largely confined to the analysis of new policy proposals together with the review of existing policy. The Department is generally not involved in the monitoring of the administrative efficiency with which existing programs are operated. This latter issue is, of course, the responsibility of the Treasury Board."

In its submission to the Commission, entitled "Responsibility in the Constitution", the Privy Council Office defined the function of the central agencies as playing "an essential role in the successful functioning of ministerial government. They enable the confederacy to work. They pull the system together, synthesizing and co-ordinating, occasionally leading."†† They do so by supporting and advising the three central political participants in a variety of roles and responsibilities.

In our Progress Report we described these roles and responsibilities of the central agencies with respect to central management functions and there is value in reiterating them. The Privy Council Office

> assists the work of the Cabinet and its committees by coordinating the preparation of policy proposals and by facilitating interdepart-

† "Department of Finance Statement" to the Royal Commission on Financial Management and Accountability, October 19, 1978.

†† Canada. Privy Council Office. "Responsibility in the Constitution". August 1977, p. 31.

mental consultation. It provides advice to the Prime Minister on the development of government policies and programs. The Privy Council Office also plays a key part in the central management of government through its role as adviser to the Prime Minister on major organizational changes that modify the jurisdiction of departments and Crown agencies, through the provision of staff support to the Prime Minister and the Cabinet for the selection, appointment, evaluation and compensation of deputy ministers and heads of Crown agencies, and to the Advisory Committee on Executive Compensation for the administration and compensation of the senior executive group in the public service.

The Treasury Board Secretariat and the Office of the Comptroller General share the responsibility for providing support to the President and the Board. The Secretariat is responsible for examining

departmental spending plans, and makes recommendations on the appropriate allocation of resources between competing demands. In the personnel management area, it recommends policy on manpower utilization, compensation, pensions and insurance, and staff relations, as well as negotiating collective agreements with public service unions on behalf of departments, and has recently added an officer to co-ordinate all aspects of pay administration. The Secretariat's other responsibilities include the administration of the official languages policy.

The Office of the Comptroller General recommends policies and sets out directives and guidelines for financial and administrative management and supports the performance evaluation responsibility of the Board.

The role of the Department of Finance

is to advise the Minister of Finance and the government on economic and financial affairs, and to prepare the budget of the Government of Canada. In collaboration with the Treasury Board Secretariat, it recommends to the Minister of Finance and the President of the Treasury Board the fiscal framework that sets out the financial plan establishing the proposed levels of revenues and expenditures appropriate to the economic circumstances of the country. All departmental expenditures, loans to and appropriations for Crown agencies and grants to individuals and associations must be made within this plan. Finance takes an active interest in major spending programs and loans because of their impact on the fiscal framework, and exercises

a significant influence on the establishment of government priorities that involve large sums of money.

Unlike the other central agencies the Public Service Commission does not act in support of a specific part of the collectivity of ministers or of a particular minister. We shall be dealing at length elsewhere in this Report with the Public Service Commission and with the changes we believe should be made with respect to its roles and responsibilities. It is sufficient to state here that it now has three main roles: a responsibility for staffing the public service either directly or through delegation of authority to deputy heads and a concomitant responsibility to Parliament for the application of the merit principle in this area; the operation of training programs and assistance to deputy heads in operating such programs; and the provision of redress to public servants against staffing decisions. In addition, at the request of the Government, the Commission assumed responsibility in 1972 for investigating allegations of discrimination in public service employment practices, and in 1973 for the provision of second-language training for public servants. The Commission manages manpower planning for senior executives, and is involved in their career planning and development.

As we will explain more fully in succeeding chapters, it is our view that the organization, structures, and processes of the components of the Ministry primarily responsible for the management of government, and those of the central agencies which support them, are not adequately achieving that goal.

The deficiencies in the central management of government today relate in no small measure to a failure to plan thoroughly at the top. Accepted, instead, is a planning process too often dependent on trying to marry unco-ordinated proposals coming up from the bottom. There is a consequent failure to budget rationally, and a confusion of responsibility for control and evaluation. The follow-up by central management to see if commitments have been met or indicated levels of performance attained has been lacking. The shortcomings of the existing system stem as well from a failure to define precisely and distinctly the tasks and responsibilities of the central agencies. Accountability of the central agencies themselves for the way in which they have performed their own roles is incomplete.

Our recommendations regarding management and accountability underline the need to clarify, re-arrange and, in some cases,

strengthen the respective roles of these central agencies. Paramount in our thinking is the role that the Financial Management Secretariat of the Board of Management, the Privy Council Office and the Department of Finance must share in the process of allocating resources and in preparing a Fiscal Plan for presentation through their ministers to the Cabinet Committee on Priorities and Planning and eventual submission to Parliament. The Plan, which we outline later, would require disclosure by the Government of its medium-term priorities as indicated by its spending and financing intentions. It is intended to provide a public focus that will impose a new element of discipline over spending and, at the same time, provide important information for private planners about the Government's financial intentions.

Equally important is a new perspective for the Treasury Board. The Privy Council Office paper asserts that historically the Board has served the collectivity by its political function of reconciling the Estimates. We agree that this is a fundamental role for a committee of the Cabinet to play on behalf of the collectivity; however, in our judgement this political function of reconciling Estimates and setting limits for expenditures would be better carried out in the Cabinet Committee on Priorities and Planning, chaired by the Prime Minister. As for the Treasury Board and its Secretariat, we contend that they should play a fundamental role in the management of government and that the nature of this role should be reflected in a change of name. Indeed, we believe this is the role that was envisaged by the Glassco Commission.

We accept that in the political arena objectives and goals are not susceptible to the same precision of definition as in the private sector. Nevertheless, we believe that the centre has not done as much in this area as is possible. We think that it is incumbent upon ministers collectively and individually to define objectives and set goals and to do this with sufficient precision to permit the public servants entrusted with meeting them to understand and accept them. Once this occurs, performance evaluation can be meaningful and departmental officials can be held to account. When accountability is focussed in this manner, it will be clear who should reap the rewards of accomplishment or suffer the consequences of failure. Similarly, we cannot accept that priorities and objectives can continue to be set without a full awareness of the financial implications of attempting to achieve them. If the situation is to improve, the organization and operation of the

centre—as they affect both ministers and officials—will have to ensure that there is clear identification of goals and accountability for results.

5

SETTING LIMITS: THE FISCAL PLAN

Our review of the existing financial planning process revealed several fundamental weaknesses. None of the participants is held effectively accountable. Expenditures are proposed by departments in ignorance of projected revenues and without their being related to priorities. There is no public commitment to an expenditure plan and consequently no basis for effective parliamentary review. Finally, there is little public participation in expenditure planning. In short, co-ordination and discipline are absent. This has led to incremental budgeting, crisis planning, poorly conceived ad hoc solutions to problems, and excessive flexibility in program management. This chapter is devoted to establishing co-ordination and discipline in expenditure planning and showing how they are necessary to accountability in government.

Fundamental to sound management of government is the development of a medium-term Fiscal Plan for the achievement of priorities and objectives. Such a plan would constitute a political and managerial commitment to the achievement of goals. Its publication would display clearly the effects on expenditures of changes in priorities, and its existence would provide assurance to the different levels of government, the business and international communities, and the Canadian people that the financial consequences of the federal government's intentions had been fully recognized and assessed. The concept is not new. Indeed, the components have, for the most part, been readily available for a number of years.

There are three steps in the existing process. The establishment of the Fiscal Framework within which the Government will introduce its various economic measures in the near term is the

first. The second is the compilation by departments and agencies of preliminary or Program Forecasts, showing how much money they will require to fund existing and new programs over the next three years. The third is the preparation of Estimates, detailing planned expenditures, and the Budget, showing anticipated revenues for the next fiscal year. These last two documents are submitted to Parliament.

The Fiscal Framework In mid-March each year, the Department of Finance and the Treasury Board Secretariat begin preparation of fiscal framework memoranda, the purpose of which is to recommend to Cabinet a level of resources for allocation which on the one hand will be adequate to finance government programs, and on the other will be consistent with probable financial constraints and macro-economic goals. The memorandum prepared by the Department of Finance recommends the total level of outlays consistent with projected revenues and general economic considerations. Within this aggregate expenditure ceiling, the Treasury Board Secretariat, in the Expenditure Budget Projections document, forecasts the cost of maintaining existing government programs at current levels and recommends the level of resources to be committed to new or expanded programs and those to be allocated as contingency reserves.

The nature and timing of the fiscal framework documents vary depending upon circumstances, but they are usually submitted in April in the form of memoranda to the Cabinet Committee on Priorities and Planning, which reviews them and then passes them on to the Cabinet. The Cabinet then issues broad expenditure guidelines to be followed by the Treasury Board Secretariat in the review of departmental and agency Program Forecasts. In 1978, these guidelines specified only the total level of expenditures and, within this, the amounts to be allocated to new programs and to contingency reserves.

This first link in the planning chain, the establishment of the fiscal framework, has turned out to be the weakest. It has three major flaws: its purpose and content, its timing, and its communication. Its purpose has been to inform the Cabinet of the likely levels of revenue to be generated within the current and next two fiscal years, to estimate the expenditures required to keep existing programs going and those that might be required for new programs, and to state the probable effects on debt levels if these

revenues are generated and expenditures incurred. This provides the Cabinet with a basis on which to decide whether taxes or expenditures should be increased or decreased, but in practice its main impact has been on the determination of the total expenditure levels that seem appropriate for the next fiscal year. These are then communicated to the Treasury Board Secretariat in the form of guidelines. These guidelines are not, and do not purport to be, a plan. Typically, they take the form of a series of statements dealing with global expenditure levels and constraints rather than a full explanation of priorities and overall plans. Priorities are stated, but there is no indication of the level of resources to be allocated to them.

As for timing, the guidelines are agreed upon and promulgated only as departments and agencies are in the final stages of preparing their Program Forecasts for submission to the Treasury Board Secretariat. This is long after they should have been made aware and been able to take account, in the development of their Forecasts, of any stated priorities, expenditure levels, and constraints.

Lastly, the fiscal framework guidelines are not communicated directly and formally to the departments and agencies responsible for carrying out programs. Instead, they are sent to the Treasury Board Secretariat, which interprets them and incorporates them in its requests to the departments and agencies for Program Forecasts.

What are the consequences of these flaws? First, since departments and agencies have no externally imposed expenditure and policy guidelines to work with, they prepare their Program Forecasts without an upper limit to the expenditures they are proposing. They cannot plan realistically, and do not have to make hard choices among the options facing them. Second, the Treasury Board Secretariat's review of Program Forecasts has become a wasteful and time-consuming exercise leading to acrimony and loss of respect among the participants. The problem is that the reviewing agency interprets vague guidelines both according to its own perceptions of Government priorities and expenditure needs and in the light of the forecast by the Department of Finance of revenue limitations, while the submitting departments and agencies have no access to this significant information.

Program Forecasts Without guidance from the central agencies with respect to available resources, government departments and

agencies are expected to start preparing their Program Forecasts in October or November for consideration by the Treasury Board in April of the following year. This is three or four months before the fiscal framework is prepared. When it was instituted in 1967, the Program Forecast exercise was intended to produce a medium-term planning document in which departments and agencies would set out, for the five years following that in which the forecast was established, the objectives of their existing and possible programs, the approximate resources needed to implement them, and the benefits likely to be obtained. It was intended to be a statement of plans, subject to modification only if discussion with the Treasury Board Secretariat revealed that resources were not allocated according to Government priorities, that programs overlapped, or that resources were unavailable. The outcome has been very different. The absence of guidelines has led departments and agencies to the view that justifying resource requirements is of more consequence than establishing the validity of program objectives and their expected effectiveness in terms of their cost. The Treasury Board Secretariat has reinforced the consequent approach to the forecast by departments by requiring extensive supporting detail. This has turned the forecasts into a bookkeeper's dream, and it is as such that they are seen in many departments, where senior management, let alone ministerial, participation in their preparation is often minimal. At its inception, the Program Forecast was expected to become a presentation of plans generated within departments. Instead, it has come to be directed toward fulfilling external requirements; it is a detail-laden agglomeration of expenditure budgets. Because of the emphasis on detailed expenditure justification, the Program Forecast is usually developed at the most junior levels in departments and agencies, often without external or internal guidelines as to expenditure limits or policy priorities. It has, therefore, become a composite of the requirements of many small pockets of authority.

A further flaw is that planning under the assumption of unlimited resources is very different from planning within fixed limits. In fact, planning is a misnomer for a process that focusses principally on new initiatives and how they might be realized. It is not planning if it does not require choices among new initiatives, and encourage the review and evaluation of on-going activities and the identification of cost reduction potential.

Furthermore, because proposals must be submitted so far in advance of the execution of plans, the Program Forecasts frequently contain ill-founded predictions of costs, particularly of capital expenditures. These predictions, which are reflected in the Estimates, often fall far short of real costs. Further, the time available to departmental management to review the forecasts prior to submission to the Treasury Board Secretariat is so limited that thorough examination of them is rare.

Program Forecasts have become medium-term detailed budgets rather than plans showing objectives and their financial implications. They are viewed by departments and agencies as trial runs at the Estimates, with the purpose of determining what additional resources can be obtained from Treasury Board for the forthcoming fiscal year. Moreover, because they are regarded within departments as medium-term detailed budgets, subsequent changes in them are viewed internally as both arbitrary and disruptive. In addition, ministers, acting on this view of Program Forecasts as budgets implying a degree of commitment, have from time to time publicly announced new programs, using the incomplete information contained in the forecasts. As a result of such publicity, it becomes politically difficult for the Treasury Board later to turn down or modify such proposals even when more accurate costing indicates that the actual costs will far exceed those given in the Program Forecasts.

The review of Program Forecasts by the Treasury Board Secretariat culminates in recommendations to the Board for acceptable expenditure limits and required man-years. These are usually accepted and form the basis of the expenditure budget, tentative departmental expenditure ceilings, and an expenditure contingency provision for the next fiscal year. Since the Treasury Board concerns itself with the Estimates for the coming year, much of the detailed financial information set out in the Program Forecasts for subsequent years is not put to any useful purpose. Indeed, this appears to have been recognized, since the period covered in the forecast has been reduced from five years to three.

Estimates and the Budget The third step in the planning process begins with the translation of departmental expenditure ceilings for the coming fiscal year into the votes and subcategories in which they will be presented to Parliament in the Main Estimates of expenditures. These ceilings are usually communicated to departments in July following Cabinet consideration and approval of the

Treasury Board expenditure forecast document and its analysis of program forecast submissions. Then comes the assembling of the Budget.

The Main Estimates present the Government's expenditure proposals for the coming fiscal year to Parliament for its approval. The wording of these proposals and the stipulated expenditures, when included in the appropriation acts, set out the governing conditions under which the expenditures may be made. The Estimates for each department display budgetary and non-budgetary (i.e. loans and advances) expenditures by program, activity, and object of expenditure, and also show manpower by occupational category. For information purposes, the Estimates also include expenditures described as statutory items, for which the required funds have already been approved through existing legislation. Main Estimates are tabled by the President of the Treasury Board in the House of Commons each February for the fiscal year commencing on April 1. Estimated expenditures appear beside the forecast expenditures for the fiscal year ending on March 31 and the actual expenditures for the previous fiscal year. Since 1975, the President of Treasury Board, in his statement on tabling the Main Estimates, has also committed the Government to a fixed ceiling on total expenditures. The difference between the total for Main Estimates and the ceiling represents the amount of expenditures set aside for supplementary expenditures. The Estimates for the latter are tabled as required, normally beginning the following November, and cover such items as overruns on statutory expenditures, increases in public debt financing charges, new programs, and increases due to wage and salary adjustments during the year.

The major inputs to departmental Main Estimates are the operational budgets of the various units responsible for program implementation. Main Estimates do not, however, detail resource requests down to the level of the responsibility centres that make up these units. This is done internally by the departments and agencies once Cabinet approval has been given to the Main Estimates. Although initial drafts of these operational budgets form the basis of the requests made in the Program Forecast, the final operational budgets are more up to date than the drafts and thus reflect better the departments' current priorities as well as current cost levels. In consequence, when departments prepare their Main Estimates submissions in October, it is not unusual for the total to exceed the expenditure ceiling established in July. In

order to bring the totals within the ceiling, further negotiations with Treasury Board Secretariat program analysts are necessary before the Estimates can be put in their final form for Cabinet approval in December prior to printing in January and tabling in February. Thus, Estimates preparation, as a short-term planning exercise, has developed the same defects as the process for preparing Program Forecasts: form-filling and compliance with detailed procedures, and middle-management negotiation over adherence to tentative expenditure ceilings.

Following the tabling of the Estimates the next phase is usually the presentation of a Budget. The Budget proposes changes in Government fiscal policy with respect to taxation, borrowing, expenditure, and lending. It provides the only public forecasts by the Government of total revenues and cash requirements. The financial data presented in the Budget are not detailed, but relate to government as a whole. Although there is no formal requirement to do so, the Minister of Finance generally presents a Budget to Parliament in the spring, a month or two after the introduction of the Estimates. This establishes the level of taxation required to produce revenues to meet expenditures projected in the Estimates and the level of deficit or surplus that, in the view of the Minister of Finance, is the most appropriate to the current economic situation and outlook. It also shows how the Minister believes that these revenues can best be raised in the light of the Government's policy priorities.

These three steps form the basis of a planning process that could, if organized and co-ordinated, contribute greatly to improving accountability in government, and to increasing Parliament's control over the purse. At present, however, they fail to meet these goals. Program Forecasts are prepared in ignorance of the fiscal framework and are not action plans; the fiscal framework carries no Government commitment and no stamp of public approval; and until Parliament finally approves the Estimates, there is no firm upper limit on expenditures.

The Fiscal Plan

Sound management must be based on a planning process that establishes goals, sets out the best ways of attaining these goals, identifies the human and financial resources required to achieve

them, and measures the benefits arising from their attainment. If Parliament is to gain more effective control of the public purse immediate steps must be taken to introduce into the management of the Government of Canada a planning process that carries out these four activities. The starting point in the process must be the development of a plan encompassing the total spectrum of government revenues and expenditures. Such a plan would benefit not only the federal government but also other levels of government which depend on the federal government for fiscal transfers. It would enable individual citizens to appreciate the consequences of their rising expectations and to know what portion of their incomes might be taken from them by taxation. It would enable business to plan effectively in the light of the financial intentions of the Government.

If a plan is to be effective, it must be visible and credible and, while responsive to changing conditions, it must also carry full commitment and be resistant to unwarranted change. Planning must underlie accountability, the primary object of this Commission's scrutiny, so as to give meaning to goals, to the measurement of benefits, and to expenditure levels, and to make possible the commending or blaming of those held accountable. We have concluded that Parliament must annually require from the Government a Fiscal Plan that addresses itself to these various needs. This plan should become the basis of the medium and short-term planning processes of all government departments and agencies.

Because the Fiscal Plan is the framework for financial management, we propose that it be presented to the House of Commons in late October, well before the submission of the annual Estimates and the tabling on the Budget. Debate could then be focussed on the broad aspects of fiscal planning, and questions such as the following could be raised:

- What are the Government's priorities and how is it proposing to fund them?
- Was the Government successful in meeting the objectives of last year's Plan?
- Has the appropriate balance been struck between expenditures and revenues?
- What are the major implications of the proposals for future government spending?

In committee and House debate, Parliament would be able to examine the totality of government spending, its past results, present impact, and future direction. Such discussion, and the perspective it would provide, would be a valuable prelude to the subsequent consideration of the Estimates and the Budget.

In determining what the content of such a medium-term plan should be, we reviewed the methods used by governments in a number of other western industrialized countries to advise their legislatures and people of financial plans. No two were alike. Some governments, such as those of Sweden and the United States, concentrate on the immediate future, and simply set out projections of revenues and expenditures for the medium term based on current trends and economic assumptions. In the United Kingdom, each year the government presents to Parliament a review of the expected amount of total public expenditures for the five years to come. These are broken down by functions such as "Roads and Transport", "Housing", "Social Security", and "Debt Interest". Although it is intended to do so in the near future, to date revenue forecasts have not been provided. In France, the emphasis is on identifying major priorities. The government presents legislative proposals covering national defence and 25 other programs in which planned expenditures for five or six years are clearly set out. In this way it establishes limits for about 30% of its expenditures for a considerable period. These limits are refined each year as ministers are advised by the Prime Minister of total funds allotted to their departments for the forthcoming year. In the Netherlands and the Federal Republic of Germany, fiscal planning covers both revenues and expenditures for periods of four and five years respectively. In Germany, the revenue forecasts and economic assumptions are made first. Then expenditure plans are established for the year that will be in progress at the time the plan is published and for the four succeeding years. Expenditure ceilings for the first two years are considered firm, whereas the other three remain open to adjustment as subsequent plans are introduced.

The need to determine the availability of resources before expenditures are proposed, the financial interdependence of the three levels of government in Canada, the size and extent of shared-cost programs, and the ever-increasing influence of economic factors beyond Canada's direct control have led us to conclude that a Fiscal Plan for Canada, based on clearly stated

economic assumptions, should include both revenue expectations, based on existing taxation legislation, and all planned expenditures. It should cover a period of five years. This is the minimum commitment required to make it useful to planners and to provide sufficient time for testing new initiatives. It should also be the maximum time needed to wind down in an economical and co-ordinated fashion any programs judged obsolete or redundant, or to transfer responsibility to other levels of government where appropriate. Of these five years, the first would be that in progress when the plan was submitted to Parliament, the second that for which detailed Estimates would be presented four or five months later, and the other three those following.

The introduction of this disciplined form of planning at the centre, along with a vastly improved process of departmental and agency planning, should go a long way toward restoring to Parliament its rights with respect to the public purse, creating an atmosphere of accountability in the federal government, and improving relations with other levels of government. Finally, it should contribute greatly to restoring public confidence in the management of government. Therefore, we recommend that

> **5.1 each year the Minister of Finance present to Parliament, on behalf of the Government, a five year *Fiscal Plan* which provides estimates of revenues, sets expenditure ceilings, and reflects the expected surplus or deficit. The Plan would be based on the existing tax structure and clearly stated economic assumptions.**

The five essential components of the Fiscal Plan are as follows: (1) the Government's assumptions about the future performance of the Canadian economy; (2) the level of revenues expected under the current tax structure; (3) the projected cost of current and planned programs and activities; (4) the surplus or deficit resulting from these projections and the levels of debt that these surpluses or deficits will require; and (5) an explanation of any variations in the projected levels of revenue, expenditure, and debt from those in the previous year's Plan.

These components are the product of a variety of political decisions about the management of Canada's economy taken in the context of international economic trends and the expressed desires of the electorate. For example, in the absence of tax changes,

changes in revenues depend on the rate of economic growth and inflation. Expenditures are contingent on program priorities, on revenues, and on the effect of government borrowing on capital markets. Together, revenues and expenditures constitute the basis for the preparation of a Fiscal Plan which would set out the framework within which policies are developed and operational plans set, and would establish discipline in management and a basis for accountability in government.

The Fiscal Plan should provide a clear picture of the planned role of government in the economy and of the expenditure ceilings that will control the course of future spending. It should also contain a summary of government performance over the last five years so that trends can be perceived and the magnitude of change recognized. Our inquiries have revealed that much of the basic information needed to support the assumptions on which such a Plan would be based is already available to the Government. The relationship between this existing data base and the five essential components of a Fiscal Plan follows.

The background to any financial plan must be clearly described before any projections of revenue, expenditures, surplus, or deficit can be accurately assessed. Among the more important elements in such a background are trends in employment, capital investment, the extent of government involvement in the economy, national and regional growth patterns, inflation, international trade, productivity, and consumer demand. The first part of the Fiscal Plan should describe the effects of these various trends on the economy since the last Fiscal Plan was laid before Parliament and should predict their likely effects over the next five years. More important, this introduction should give the Government's view of the effects on the economy of its Fiscal Plan if the revenue and expenditure levels it contains are in fact attained. Information on these trends already appears in varying degrees of detail in publications such as the annual *Economic Review* and other papers published by the Department of Finance about the economic outlook, and the notes on economic conditions that usually accompany Budget statements.

With respect to revenues, the Fiscal Plan should set out estimated tax and all other revenue by major category, together with totals of planned repayments to the government of loans, investments, and advances, but without any allowance for foreign exchange transactions. We are aware that strong arguments can

be made against publishing expected revenues on the grounds that the variables affecting revenues make accurate forecasting difficult and politically risky. Governments are also understandably reluctant to forecast specifically with respect to such sensitive subjects as interest rates, exchange rates, and employment. Notwithstanding this risk, without the discipline of preparing revenue forecasts the planning process will never be taken seriously. Without a statement of expected revenues, the Fiscal Plan would be cast in a vacuum. Reporting planned expenditures alone, in other words, setting limits on spending without similarly setting targets for revenue, would ignore the necessity of planning within the limits of available resources and relegate the Fiscal Plan to the status of a mere discussion paper about future expenditures.

The benefits to the Government and ultimately to Parliament of making revenue projections public will be greater than the risks. An integrated presentation of revenues, expenditures, and debt levels should force a thoughtful and informed review of the total financial operations of government. Parliament, the public, and the Government would be able to see the relationship between new programs or priorities and increased taxes, larger deficits, or reductions in current programs. Canadians have the right to know the consequences of policies being followed and the extent to which they may lead to borrowing. They have an equal right to know to what extent the Government is living within revenues and if it is not, how and when it plans to balance the Budget.

Expenditures reflected in the Fiscal Plan, which would exclude any allowance for foreign exchange transactions, should be displayed in a much more detailed fashion than revenues since it is at this point that commitment must be exacted. Accountability is derived from commitment.

The Plan would correlate the Government's priorities with proposed budgetary and non-budgetary expenditures for each of the five years of the Plan. All expenditures should be displayed by the following broad functions:

1) Economic Development
2) Social Programs
3) Transportation and Communications
4) External Policy and Defence
5) Government Operations
6) Fiscal Transfer Payments
7) Interest on the Public Debt

In addition, so that the Fiscal Plan could indeed become an effective catalyst in the total government planning process, the global expenditure forecast should also be subdivided by department and agency for the first three years of the Plan.

The Fiscal Plan is so important that debate on its contents should become a significant event on the parliamentary calendar and the public should be given an opportunity to present observations on it. In Chapter 22, we set out how this could be accomplished. The balance of this chapter is devoted to the methods and means whereby the levels of expenditures in the Plan should be determined.

Expenditure Ceilings Just as a Fiscal Plan without a statement of expected revenues would be incomplete and lack full meaning, we have concluded that an expenditure planning process that is not subject to the discipline of a firm ceiling on both statutory and voted expenditures would be similarly deficient. Four observations contribute to this conclusion. First, federal government expenditure has grown to a sum that is equal to more than 20% of the country's gross national product, and statutory payments constitute over half of these expenditures. Second, over the past decade, the impact of public expenditure on the economy has become as important as, if not more important than, the effect of taxation. Third, federal government programs become more and more complex each year and often involve significant future expenditure commitments whose implications are not always recognized. Finally, reliance cannot necessarily or always be placed on public opinion as a means of controlling public expenditure. Changing expectations and the influence of pressure groups have in fact combined to encourage expenditures.

Planning is effective only if it is undertaken in an environment in which there are real and finite limits to resources. Planning will never be successful if it is conducted on the assumption that resources are inexhaustible. We note that the Government has in recent years, in conjunction with the presentation of the Main Estimates, announced an expenditure ceiling covering both these and the Supplementary Estimates. While this is an encouraging development, it does not go far enough because there are no limits for either broad functions or individual departments.

The establishment of limits for each of the functions demands a general commitment from the Government, but functional limits do not impose the corresponding commitment, and the accounta-

bility this implies, from individual departments and agencies or from program managers. If effective program management and sound financial control are to be achieved, departments and agencies must also work within firm expenditure ceilings. Unless this occurs, departments and agencies will continue to request resources without providing clear definitions of the objectives for which they are required, without stating precisely how resources will be used to achieve objectives, and without determining their likely benefits. They will have no incentive to seek out value for money and to achieve maximum operating efficiency, and to make hard choices about which programs are most worthy of support and where to eliminate duplication and waste. We recommend that

5.2 the Fiscal Plan contain ceilings on expenditures for specified functions of government within the ceiling set on expenditures for each of the five years covered by the Plan; and that

5.3 for the first three years covered by it, the Fiscal Plan contain departmental and agency expenditure ceilings, within the total expenditure limit for each of those years.

In advancing these recommendations we recognize that commitment too far into the future could be counter-productive in that actual costs would be difficult to predict accurately. Thus we have recommended the inclusion in the Fiscal Plan of departmental and agency expenditure ceilings for only three years. While this is the practical maximum, it is also the minimum necessary to meet the objectives of having a Fiscal Plan. Since the first year is already in progress and Estimates for the second will be submitted to Parliament within a few months of the presentation of the Plan, Parliament and the public can have little influence on them. On the other hand, public commitment to medium-term expenditure ceilings for departments and agencies should be made by the Government to indicate that the total expenditure limits by function are sound and realistic. In addition, such a public statement would impose on departments and agencies the obligation to relate their expenditure plans to objectives and priorities. Expenditure limits for the fourth and fifth years of the Fiscal Plan should be given by function only. It would be up to departments to determine just how such limits would be likely to affect them.

In determining total expenditure limits and departmental and agency ceilings, allowance must be made for all new initiatives, for genuine emergencies, and for changes in the economic climate which might, for example, increase the cost of servicing the national debt. Thus a contingency allowance should be included in the Fiscal Plan. Such an allowance would reflect past experience. It would not be allocated to any function, department, or agency. Beyond this allowance, expenditure limits would be just that; they would have to be viewed as the maximum available for all purposes.

Establishing and publishing departmental expenditure limits for a three-year period will contribute to the development of a sense of fiscal commitment and accountability. It is only in such an environment that good management practices can take root and flourish.

Developing the Fiscal Plan The problems posed by the existing planning process are traceable to the fact that there are so many participants in the various steps in the process, to the tendency to assign resources without due regard for their availability, and to the absence of a central focus of responsibility and accountability for the co-ordination of the process. We concluded that the likelihood of the country gaining lasting benefit from the introduction of a Fiscal Plan would be reduced unless the roles of the participants were clearly defined and reinforced with the necessary authority.

At the political level, responsibility for the Plan should be vested in the Cabinet Committee on Priorities and Planning, whose role does not require further definition and whose authority is more than adequate. At the bureaucratic level, however, changes will be required. The three central agencies now involved in the various tasks which must be integrated into a single planning process, the Privy Council Office, the Department of Finance, and the Treasury Board Secretariat, approach these tasks according to their own perceptions and without sufficient co-ordination.

The Department of Finance determines how to raise the necessary funds, handle the debt, and, most importantly, respond to the changing needs of the economy. The Privy Council Office, as the central agency serving the Cabinet, interprets the Government's priorities, considers implications for the Government's policies of program proposals before they are presented to Cabinet committees, and deals with the organization of government. The

Treasury Board has responsibility for ensuring that resources are allocated to programs in an effective manner and that funds are expended in accordance with Parliament's intentions. Effective leadership and co-ordination in these tasks, however, have been deficient. To illustrate, we note that government introduced three planning and accountability concepts, the Planning Programming Budgeting System, Operational Performance Measurement System, and Management by Objectives, in a ten-year period. None of them proved an effective means of gaining control of the planning and expenditure processes. It has been clear from our meetings that departments and agencies would welcome a re-affirmation of leadership. They will accept rigorous decisions as long as they are equitably made within the acknowledged mandate of the central agency concerned, and with the grounds for decisions clearly understood, and any deviations from ground rules fully explained.

To ensure that the Fiscal Plan provides such an impetus, it must be, and be seen to be, a product of the close collaboration of these three central agencies and a reflection of the political judgements and aspirations of the Government itself. It must be clear that those preparing the Plan have taken proper account of the nation's economic and financial situation, have carefully considered the Government's priorities, and have determined the most judicious use for limited resources.

Though it cannot do so with complete independence, the Department of Finance should take the lead role in developing the basis of the Fiscal Plan. The basic knowledge of the country's economic situation and of the likely economic effects of proposals in the Plan reside in the Finance department, as do the expertise on revenue generation and the knowledge of the impact of revenue and cost-sharing arrangements with provincial governments. Its continuing reviews also provide insight into the economic effectiveness of major programs. Nevertheless, the Department of Finance cannot take the lead in fiscal planning without relying on the Privy Council Office to ensure awareness of, and sensitivity to, the Government's total policy orientation, and on the Board of Management to develop an appreciation of the ability of managers to deliver programs economically, efficiently, and effectively. Each agency should, therefore, have clearly defined and mutually supportive responsibilities with respect to the development of the Plan.

A small secretariat within the Department of Finance should initiate the process by gathering the components of the Plan from the appropriate sources in order to develop the general outline and contents of the Plan. The department's concern should be with the macro-economic aspects of planning, and with specifying the economic and revenue assumptions on which the Plan is founded. The department's apportionment of total expenditures to the broad functions of government would result in recommendations for functional ceilings. These should meet the Government's priorities for the management of the economy.

To fulfil the responsibility of the Board of Management with respect to the Plan, the Financial Management Secretariat under the Comptroller General should propose the division of each of the functional ceilings into limits for each department and agency under that function, whether financed partially or completely from the Consolidated Revenue Fund. The implementation of other recommendations in this Report will help to ensure that the Comptroller General and his staff are in a position to perform this task objectively and with a view to obtaining value of money and avoiding waste. The Financial Management Secretariat will have reviewed strategic plans which departments will be required to prepare, the translation of these into operational plans, and the evaluation of the economy, efficiency, and effectiveness with which government programs are conducted. Each of these activities would support the role of the Board of Management in the development of the Fiscal Plan.

The responsibility of the third participant, the Privy Council Office, lies in ensuring that the Plan's interpretation of the Cabinet's priorities is current, accurate, and realistic. The Privy Council Office should also provide early-warning signals to departments and agencies likely to be affected by changes in the functional ceilings.

In summary, we recommend that

> **5.4 an annual update of the Fiscal Plan be developed jointly by the Department of Finance, the Privy Council Office, and the Financial Management Secretariat of the Board of Management, and that the Minister of Finance, supported by the President of the Board of Management, submit it to the Cabinet Committee on Priorities and Planning.**

When the Plan is presented to the Cabinet Committee on Priorities and Planning, over the signatures of the Minister of Finance and the President of the Board of Management, it should also be clear that it reflects the judgement and has the support of the Prime Minister. While this should not preclude vigorous discussion and the possibility of significant change based on the collective view of the committee, and ultimately of the full Cabinet, the Prime Minister's role as the focus of collective responsibility and as leader of the Government makes it essential that he be involved, and be seen to be involved, in the Government's global planning from the beginning.

In addition to their individual responsibilities, the central agencies should jointly perform a number of important tasks. Foremost among these is communicating the Plan to deputy heads of departments and agencies and explaining to them the relation between the Government's priorities and the broad functional and specific departmental and agency expenditure limits set out in it. While the departments and agencies will have contributed to the development of the Fiscal Plan through their own planning processes and through briefing their ministers in the various stages of cabinet approval, senior officials from all the central agencies should meet with groups of deputies according to the different functions in the Plan. This could take place after the Plan has been approved by Cabinet but before it is tabled in Parliament. The support and co-operation of deputy ministers is of the utmost importance if the central agencies are to be able to fulfil their responsibility for ensuring that the integrity of the Plan is preserved. Preserving the integrity of the Plan will also require that legislative, Budget, or Estimates proposals are accompanied by information scrupulously setting out their effects on the Plan, and that the Plan is kept carefully up to date.

Ministers may occasionally feel that some spending limits are unreasonably harsh or inequitable. In such cases, appeals will be possible, as they have always been with respect to political decisions, to the Cabinet Committee on Priorities and Planning, or the full Cabinet. The setting of particular expenditure limits is essentially political and it is in the political environment that it must be debated. In short, there is no call for an appeal process at the bureaucratic level.

Updating the Fiscal Plan We have recommended that the Fiscal Plan be tabled in October of each year. Subsequent debate on the

Plan and the financial picture it reveals, and changes in the nation's economic situation, may well cause the Government to modify its proposed functional expenditure limits prior to tabling the Main Estimates. It is more likely, however, that necessary changes would be made by modifying fiscal policy, which is reflected in the Budget. Thus, modifications to the Fiscal Plan would more likely relate to changes in the amount of revenues to be raised or to changing the means of achieving an objective, for example, by using tax incentives instead of expenditures. In either case, the Fiscal Plan must be the foundation on which any changes are made and consequently the framework within which the Budget, and all Estimates, should be presented. If provisions in the Estimates, Supplementary Estimates, or the Budget differ from those in the Fiscal Plan, Parliament should receive a concurrent explanation of the necessary changes in the Plan. Though deviations from the Plan are inevitable, they must be fully explained and justified.

The introduction of expenditure limits should improve planning and reduce the need for the Government to request supplementary appropriations from Parliament. A responsive Government should always be able to introduce programs to meet changing conditions, but supplementary appropriations should be necessary only to meet real emergencies, such as natural disasters or international economic upheavals. The Government should retain the commendable practice, adopted in 1975, and continued in subsequent years, of disclosing the total amounts reserved for such Supplementary Estimates when the Main Estimates are tabled. In this way, total expected expenditures for the year can be compared with those reflected in the Fiscal Plan. There would thus be no need to expand the amount of the existing Treasury Board contingency vote which, in any case, does not relate to emergencies as we define them, but to increases in pay rates arising from collective bargaining.

If policies or changes in existing programs involve the expenditure or receipt of funds, Parliament should consider them within the context of the Fiscal Plan. The Government should also provide Parliament with a five-year analysis of the financial implications of any legislative proposals. In this way, Members of Parliament would be able to judge the continuing validity of the Fiscal plan by posing questions such as the following:

- Does the cumulative cost of the proposal fit within the expenditure ceilings set out in the Plan?
- If it appears that expenditure ceilings will be exceeded, what effort is the Government making to ensure that they will not?
- Does the proposals affect the tax structure and in turn the projections of revenue and debt levels?

We recommend that

> **5.5 the Government set out clearly the effects on the Fiscal Plan of the Estimates, Supplementary Estimates, and the Budget when it tables these documents; and that**
>
> **5.6 legislative proposals be accompanied by five-year projections of their financial implications and a statement of any consequent adjustments necessary in the Fiscal Plan.**

The implementation of these recommendations will lay the groundwork for responsible financial planning. In time, the effects of such an approach to planning would permeate all levels in central management, departments, and agencies of government. The Fiscal Plan would set out the Government's economic assumptions, give an indication of the level of revenues it expects to collect, and show how it believes these revenues can best be deployed if its economic and other objectives are to be attained. A Plan would introduce fiscal commitment and provide a basis for accountability. Parliamentary debate of the Plan and public involvement through committee hearings would provide informed and focussed discussion of vital issues. The Plan and its supporting processes would contribute to a sense of stability beneficial to departments and agencies of the federal government, to provincial and municipal governments, to international money managers, to business, and to the Canadian people.

The introduction of departmental expenditure limits will require that deputy heads and their senior executives manage their resources in the manner best suited to attaining stated objectives. This in turn should foster a tendency to measure and compare program results. Uneconomic, inefficient, or ineffective expenditure will have to be sought out and eliminated. Furthermore, and perhaps most important, deputies and other senior managers will be forced to examine the long-term implications of program

proposals and compare them with a pre-determined Plan. While the later years of the Plan would not be carved in stone, all changes due to new or modified programs would have to be fully explained and justified.

Placing responsibility for taking the lead in the development of the Plan in the Department of Finance would unite the tasks of revenue-raising, establishing functional expenditure limits, and debt management under one roof. This would provide the means to ensure that the medium-term consequences of program proposals are given adequate consideration and that revenue-raising and economic management programs are co-ordinated and coherent. Assigning the Comptroller General responsibility for proposing departmental and agency expenditure limits within established functional limits would help to ensure that managerial competence becomes an important consideration in determining to whom the taxpayers' resources should be entrusted. The participation of the Privy Council Office from the beginning of the planning process would ensure that the plans developed meet the test of being "mutually compatible" with and "appropriate to the requirements of government". While we appreciate that it is not always easy for separate central agencies to co-ordinate their activities, the essence of this proposal is that they must, and that the deputy heads of the central agencies must be held accountable to Cabinet for its achievement.

6

PLANNING EXPENDITURES AND ACCOUNTING FOR RESULTS

The Fiscal Plan we have proposed would set guidelines for the medium-term use of resources so that departments and agencies can develop policies and programs responsive to Government priorities and within financial limits that the nation can afford. It should enhance Parliament's ability to understand, evaluate, and influence the purpose and scale of proposed expenditures. It would be supported by a continuing requirement to consider carefully the financial implications of all government actions, both at the centre and in individual departments and agencies. While Parliament would debate the assumptions and intended course of action detailed in the Fiscal Plan, it would not be called upon to vote approval of the Plan. Parliament would continue to exercise its control over the public purse by approving the Government's plans for raising revenues, set out in the Budget, and for spending money, detailed in the Estimates, as it does today. It should also be entitled to an accounting in the Public Accounts and in other reports for the manner in which resources have been raised and used. This chapter deals with the processes for the approval and monitoring of expenditures, and the accounting for results.

In our examination of the present processes, we were struck by two major deficiencies that detract significantly from Parliament's ability to exert apppropriate control over the public purse. First, the information provided to Parliament to justify and explain expenditure proposals, that is, the Estimates, is difficult to understand and is not easily compared with the Public Accounts, which show how resources were actually used. Second, expenditure proposals are examined by the various standing committees of the House of Commons but performance is reported to a different

group, the Public Accounts Committee. As we demonstrate in Part V, we attach great importance to the review conducted by the Public Accounts Committee, which we consider plays a pivotal role in accountability for the administration of government. Nevertheless, we submit that the standing committees charged with reviewing departmental and agency Estimates should also focus attention on the extent to which commitments made in the Estimates have been fulfilled. We believe that the appropriate vehicle for this review is the department or agency annual report, a document that should be reconstituted to permit comparison with the Estimates.

The Estimates

In their present form the Estimates fall short of establishing a suitable base for accountability. They fail to disclose clearly why the Government wants to spend money, how it will spend it, and what the benefits of spending will be. The form and content of the Estimates were criticized by many of those coming before the Commission and were dealt with most recently in the latest report of the Auditor General. We believe that the suggestions he has made for their improvement are sound. At this point it is important to emphasize the improvements we think should be made without further delay.

While the Fiscal Plan would provide a medium-term indication of intended expenditures, the Estimates should provide a short-term forecast of expenditures in much more specific terms, and indeed must be completely consistent with the detailed operational plans of departments. They also have a constitutional role, that of forming the basis of Government requests to Parliament for authority to spend money. Generally, the Estimates are not used as part of the operational planning process in departments. They do not provide Parliament with adequate and clearly presented information stating why the money should be spent, how it should be spent, and what the benefits of so doing would be. Our recommendations are intended to ensure that the Estimates become a more useful document for both departmental planning and parliamentary scrutiny.

If the number of votes submitted to Parliament in the Estimates is to remain of manageable proportions, each must be

expressed in fairly general terms. Nevertheless, the description of individual programs, activities, and sub-activities, and of the objectives and sub-objectives they are intended to meet, should be unequivocal. Further, the expected results of the programs, activities, and sub-activities should be clearly stated. The Estimates in their present form fail to meet these requirements. The narrative is so vague and the degree of its materiality, or pertinence and importance, so variable that parliamentarians cannot know precisely for what they are voting. Nor can members be aware of the likely effects of the expenditure of funds they have approved.

We do not believe that the present vote structure should be changed, provided that the information supporting each vote is made clear and comprehensive. The way in which votes are now organized reflects the diverse nature of departments and agencies, and the fact that government is not organized along only functional or sectoral lines. More than one department may be involved in a single function, such as economic development, transportation, or social welfare. Conversely, some departments carry out programs that relate to more than one function. When the present vote structure was set up in the late 1960s, a general rule was established that individual departmental programs and the votes relating to them should not fall within more than one function. This was in order to highlight the functional nature of expenditures. Thus, the large number of votes in some departments, such as that of the Secretary of State, simply reflects the diverse nature of their pursuits.

Our proposal that the Fiscal Plan set expenditure limits by function for all five years of the Plan, and by department and agency for the first three years, would benefit from the continued existence of the present vote structure. Though the idea of establishing a single vote for each department is appealing to managers, the implementation of such a system would permit departments conducting programs related to more than one function to move resources from one to another, and, in so doing, change the intended use of funds and the functional limits established in the Fiscal Plan without prior notice and parliamentary approval.

The fact that we find the existing vote structure generally satisfactory should not be interpreted to mean that the presentation of program and activity proposals is adequate. Because there is a standardized method of assembling Estimates, they contain activity breakdowns for all programs, regardless of their size in

terms of human and monetary resources or their impact on society. For example, the State Protocol and Special Events activity in the Department of the Secretary of State, with a total budget of $4.8 million and 11 man-years, and the Land and Tactical Air Forces activity in the Department of National Defence, with a budget of $1.073 billion and 29,408 man-years, receive equal attention in the presentation of the Estimates. This wide variation in the amount of expenditures and significance of activities covered by a vote to some degree reflects an inability in government to associate activities and their components with measurable results.

An adequate presentation of a program's expenditures should comprise the aggregated costs of a series of meaningful activities and sub-activities, each linked, where possible, with a measurable result, so that efficiency and effectiveness can be assessed by comparing actual performance, reflected in the Public Accounts, with undertakings given in the Estimates. But costs of a program should reflect all those expenditures that can be identified with activities contributing to program output. These would include, for example, the costs of accommodation and government contributions to pension and other fringe benefit plans for public servants employed in each activity. Expenditures that cannot be specifically related to any one program activity, such as financial services, should be grouped under appropriate subheadings in general departmental administration. These costs should be displayed separately in the Estimates, and then charged on an equitable basis to each of the program activities.

The degree to which activities and their related costs should be subdivided in the Estimates depends on the size of the expenditures. In some departments, such as National Defence, other factors might dictate less detailed disclosure, although careful wording of sub-objectives and imaginative presentation of activity information could help to eliminate the need for exceptions.

The Estimates should convey program and activity objectives in quantitative terms, avoiding such vague descriptions as "continued improvement" or "sustained level of service". Specific objectives should be identified at the program level if the program is a small one, or at the activity or sub-activity level if the program itself is large. In this case, a general program description indicating broad objectives and strategies for achieving them is more appropriate, but these would then have to be related to specific objectives and strategies for activities and sub-activities. Estimates

for recent years have failed to provide adequate descriptions of the relationship between objectives and programs. One such example is the 1978/79 Estimates of the Department of Indian Affairs and Northern Development, which conducts four programs, general administration, Indian and Eskimo Affairs, Northern Affairs, and Parks Canada, at a cost of about $1.2 billion, most of which is appropriated through nine budgetary and six non-budgetary votes. While expenditures under each program can be related to the program's general and vaguely worded objective, they can in no way be related directly to any of the 13 sub-objectives. Compounding this, while the Estimates do show clearly the operating and capital costs relating to the 22 activities, there is no link between the nature of these various activities and the sub-objectives.

If meaningful links are forged between the purposes, the methods, and the effects of expenditure, and if the size of the expenditure is considered in determining the appropriate level of detail to be provided, there is no reason to tamper with the present appropriation structure. We recommend that

> **6.1 each program, activity, and sub-activity displaying resource requirements in the Estimates have a specific stated purpose and, in so far as possible, a measurable result.**

While the implementation of this recommendation would make parliamentary votes more meaningful, it would also bring about a substantial increase in the amount of narrative necessary in the Estimates. We doubt that this could be done within the constraints of the present Estimates format.

The Estimates are presented to Parliament in a "Blue Book" containing over 1,200 monotonous pages of spending proposals from a confusing array of departments and agencies. The first 100 pages display information relating to the government as a whole, showing proposed expenditures by function, department, object of expenditure, and type of program, and manpower levels by program. Other information relates to particulars of salary scales, and explains how the Estimates should be used. The remaining 1,100 pages are devoted to 29 sections, each section comprising data on both the department and the agencies that report to or through a minister and that draw on the Consolidated Revenue Fund for all or part of their funding. These 29 sections are then divided into as many as 11 subsections relating to the individual programs of each

department and agency. The program subsections show activities in terms of their dollar and man-year requirements, each of which is further detailed by "standard object" of expenditure and manpower category respectively. Details of proposed major capital projects, grants, and contributions are also supplied at this level. Nearly all the departmental and agency information is in standardized tabular form, and the relationships among the various tables are unclear, even to accountants, let alone parliamentarians.

In its present form, the Blue Book can be a useful reference tool but the format provides no means of conveying the individual flavour of a department's activities. Moreover, it fails to provide information in a manner conducive to effective parliamentary review. Only with difficulty can the information be related to the people, places, and things that are of interest to parliamentarians. Nor can Blue Book information be easily related to subsequent disclosures in departmental annual reports and the Public Accounts of what actually transpired. The format and the contents of all three documents should permit straightforward comparisons of objectives, planned activities, and results achieved if they are to become useful tools in accountability.

Much would be gained by permitting departments and agencies to submit their Estimates in a format individually tailored to their own activities, but expanded as we have recommended earlier in this chapter, and subject to minimum standards established by the Comptroller General. They could contain, for example, graphic presentations illustrating trends in performance relative to costs, or personnel costs compared with total costs. They might also contain organization charts showing how responsibility for carrying out the various aspects of programs, activities, and sub-activities is distributed among responsibility centres, how these are centrally or regionally directed, and how resources are allocated to each. This would encourage the clear delineation of authority and identification of responsibility essential to accountability.

Measures we propose later would ensure that even with the adoption of this highly flexible concept, Parliament could still have satisfactory assurance that its disclosure requirements have been met, that acceptable accounting practices have been employed, and that supplementary information contained in the Estimates is factually accurate. These Estimates would have the merit of concentrating the attention of parliamentarians and other readers

in areas about which they are knowledgeable and on issues in which they are interested. They would lead to more careful consideration of expenditure plans at senior management levels in departments than at present, since the revised format would provide a document more appropriate to the needs of senior management than the present Estimates. Departmental managers would have to ensure that objectives were clearly stated, that programs were related to objectives, that activities were clearly identified with specific programs, that where possible activities were related to performance indicators, and that trends in the use of resources and the reasons for year-to-year changes were explicitly set out. With these improvements, the Estimates could later be used as a basis for the appraisal of program and activity managers and employees, and the evaluation of departments, programs, and activities. Estimates could become both a basis for accountability and an effective management tool.

With the adoption of our proposals for departmental Estimates, the requirement for *Consolidated Estimates*, a document bringing together information on the government as a whole, would remain. In addition to the tables contained in the first section of the existing Blue Book, this document should reflect only the highlights of department and agency Estimates. These would include statutory expenditures, and non-statutory expenditures displayed by department and agency, by program, and by major classification (operating, capital, grants and contributions, and non-budgetary). Comparisons of the coming year's Estimates with the current year's forecast expenditures, and the actual expenditures of the last completed fiscal year should be included.

In addition to the departmental and general government information, these Consolidated Estimates should set out other information such as details of changes in the organization of government that might have resulted in the transfer of programs from one department or agency to another. They should also explain changes in standards of disclosure and accounting practices from year to year. Both the Consolidated Estimates and the departmental Estimates should show increases or decreases in expenditure levels in both percentage terms and dollar amounts, and provide complete and intelligible explanations of such changes. Most important, the Consolidated Estimates should contain a condensed version of the Fiscal Plan for that Estimates year together with an explanation and justification of any change in

departmental expenditure ceilings that has occurred between the time the Plan was introduced and the presentation of the Estimates. Similarly, changes in revenue sources likely to arise as a result of modifications in expenditure plans should be fully explained. In summary, we recommend that

> **6.2 Consolidated Estimates presenting government-wide information and the important features of departmental and agency Estimates be submitted annually to Parliament; that**
>
> **6.3 the Consolidated Estimates contain a comprehensive comparison of the total expenditures proposed in them with expenditure limits set out for the Estimates year in the most recent Fiscal Plan; and that**
>
> **6.4 separate Estimates of expenditure for each department and agency be tabled at the same time as the Consolidated Estimates, and that such separate submissions be drawn up in accordance with centrally-determined standards of disclosure and accounting practices, with decisions pertaining to detail left to each department and agency.**

Parliamentary Review Not only has Parliament been provided with inadequate and confusing information on proposed expenditures, but its ability to exert a degree of influence over expenditures has been limited by measures that have permitted a dramatic increase in statutory expenditures, and have allowed certain government revenues to be netted against expenditures.

In the 1977/78 fiscal year, $24 billion, or 56% of total government budgetary expenditures contained in the Public Accounts, did not require parliamentary approval in that year. Indeed, there was no legal obligation for details of them to be included in the Estimates for that year. These expenditures are classified as "statutory"; that is, payments from the Consolidated Revenue Fund can be made for certain purposes on the authority of substantive legislation rather than an annual appropriation act. Once parliamentary approval has been given to the related substantive legislation, payments will continue, and may escalate, unless Parliament amends or repeals the legislation in question. There is thus no legal obligation for statutory expenditures to be

approved annually and, compounding this flaw, no regular forum for reviewing the purpose and amount of statutory expenditures. There are some 60 different types of statutory expenditures, most of which relate to health, welfare, or education (Table 6.1). The legislation authorizing these expenditures may establish an all-encompassing approval, as in the case of debt-servicing. On the other hand, transfer payments to the provinces are authorized by complex legislated formulae. Specific amounts and inflation-related formulae controlling payments to individuals are also contained in legislation.

TABLE 6.1
STATUTORY EXPENDITURES
GOVERNMENT OF CANADA, 1977/78†
(Millions of Dollars)

Purpose of Expenditure	
Payment of interest on the public debt	5,550
Payments to provinces	
Fiscal transfers	3,126
Contracting-out payments	340
Hospital insurance	1,662
Medicare	598
Canada Assistance Plan	973
Post-secondary education	1,098
Payments to or on behalf of individuals	
Unemployment Insurance Fund Contributions	1,377
Family Allowances	2,122
Old-Age Security	3,669
Guaranted Income Supplement	1,078
All others	2,337
TOTAL	23,930

† Figures taken from *Public Accounts of Canada*

Legislation establishing statutory expenditures provides assurances to provinces, individuals, and investors that the Government will honour its commitments. Nevertheless, responsible financial planning requires that the continuing merit of these commitments and their related costs be subject to regular examination. If this does not occur, the ability of Parliament and the Government to control expenditures is diminished and a Fiscal Plan is of limited

value. Parliament's review of statutory expenditures has been less than adequate, and the review conducted by both departments and central agencies has been even less demanding than those made for expenditures subject to an annual vote. This is understandable in instances where rates or formulae are established by legislation, but much less so in others, such as the Canada Assistance Plan where the statute is silent on this point. Transfer payments to the provinces are also to some degree open-ended. While the appropriateness of the amounts may be verified against the legislated formulae, few programs include a means of ascertaining whether provincial governments are in fact spending federal funds on the activities for which they were intended.

We are perturbed by the absence of any legal requirement for Government to report in the Estimates the likely levels of expenditures to be incurred under statutory programs and to update these levels in the Supplementary Estimates. Even though such information is now reported in the Estimates, we think that Parliament should be provided with a safeguard to prevent any erosion of its ability to scrutinize these expenditures. We recommend that

> **6.5 legislation be amended or enacted to require that details of expenditures to be incurred under statutory programs be fully identified and quantified in the Consolidated Estimates and updated in the Supplementary Estimates, and that the same level of detail as is provided for non-statutory expenditures be provided for statutory expenditures.**

Though changes in the levels of statutory expenditure can be legislated at any time, there is no general requirement for the Government to review the effectiveness and continuing desirability of programs under which these expenditures are made. Changes in public attitudes and expectations, as well as in economic factors, private sector capability, and technology can render programs redundant or obsolete. Furthermore, duplication of legislation and services at federal and provincial levels can more than double the cost of achieving an objective and multiply the cost to the private sector of fulfilling legislative requirements. These observations have led us to the view that a process should be developed to ensure that statutory programs are periodically reviewed in depth by Parliament as a prerequisite for continued funding. While there would be some merit in recommending the "sunset" approach for

all statutory programs, whereby they would automatically lapse every five years unless continuing legislation were enacted, we concluded that this was too sweeping a concept and one whose introduction would have created too heavy a workload for Parliament. Instead, we think a *modified* sunset approach should be adopted for future new statutory programs, as it has been for parts of the *Federal-Provincial Fiscal Arrangements Act*. This would require that funding for statutory programs introduced in the future lapse five years after their introduction unless Parliament authorizes its continuation. In addition, all existing statutory programs should be reviewed at least once by the appropriate House of Commons standing committees within the next ten years and thereafter every five years. We recommend that

> **6.6 legislation for all new statutory programs, except those relative to interest on the public debt, require that funding lapse automatically at the end of the fifth year following introduction, and that renewal of such funding be authorized only after parliamentary review of the current and projected costs and benefits of such programs; and that**

> **6.7 with respect to existing statutory programs, legislation be enacted to require the responsible minister to evaluate once in the next ten years and thereafter every five years the current and projected costs and benefits of all these programs, except those relative to interest on the public debt, and that a report thereon be tabled in Parliament and be automatically and permanently referred to the appropriate standing committee for its consideration and recommendations.**

Vote-Netting and Revolving Funds Parliament has yielded control over some sources of non-tax revenue and expenditures through a procedure known as vote-netting. Some departments and agencies are permitted to reduce their gross expenditures by applying to them revenue obtained through charges they make to users of a service or facility, be they another department or the public. Since Parliament votes only net expenditures, the vote-netting practice allows departments to make expenditures beyond the amount approved by Parliament. This can occur as long as these

additional expenditures do not exceed the additional revenues generated during the year by the imposition of, or increases in, levies and fees. Not all departments use vote-netting; some receipts, such as those for patent and trademark registration fees, are credited, not to the vote, but directly to the Consolidated Revenue Fund.

Closely related to the vote-netting arrangement is the use of revolving funds. These are set up to finance a particular service with a determined class of user. Through the imposition of charges by the department or agency involved, such services can be self-supporting; the need for an appropriation from Parliament arises only when the fund is initially established or if there is a significant deficit to be financed. Again, once the creation of the fund has been authorized, Parliament retains no control over the fees charged, which include those for passports and aircraft landing. Nor does Parliament approve the expenditures incurred in operating the service, so long as they are at least equalled by the revenues generated.

The use of vote-netting and revolving funds was encouraged because it was believed that they would be incentives to departments to review on a regular basis their charges for services and would facilitate comparison between the cost of a government-operated program and private sector provision of the same service. These arrangements have not, however, worked as they were meant to. First, reviews of rates charged for services have not had the expected impact because these rates are often highly visible and politically contentious. Second, in those cases of vote-netting where attempts have been made to relate charges for services to the cost of providing them, calculation of these costs has not generally included the cost of services such as accommodations, or indirect personnel costs. Hence the revenues generated cannot be accurately matched with related expenditures. A third difficulty relates to the exercise of man-year controls. Where a department has increased charges to users, thus reducing the net amount of its vote, the practice has been that the number of man-years allocated to the department is not allowed to increase, even if the level of the services provided has increased dramatically. Further, the government holds a monopoly on many of the services for which users are charged. Hence there is no similar service with which to make efficiency comparisons.

While we support the concept that users should pay for the services they obtain, we are concerned about the accounting methods being used. Where vote-netting occurs but all costs of providing the service are not included, the results of such accounting obscure the extent to which the services are being subsidized from funds allocated to other activities. We believe that this practice should stop. All revenues arising from charges to users of services should appear in the Estimates as revenue, and the full cost of raising those revenues should be identified. Then, sensible proposals either to reduce costs or increase revenues can be developed. We recommend that

6.8 the practice of vote-netting be discontinued.

Our concern about revolving funds is somewhat different. On one hand, we have been assured that managers operating activities covered by such funds are fully aware that these activities generate revenues and are thus highly cost-conscious in their day-to-day management. If we believed that no improvement in the quality of the government's financial management could be made, we would encourage the use of revolving funds in other programs and activities. However, we are troubled by the inclusion of these quasi-autonomous funds in departments, when the accounting and reporting methods for them are more akin to those of independent agencies than to those of departments. In fact, we believe that a case could be made for locating some of the activities financed by revolving funds in separate agencies. Nevertheless, we are concerned that their existence and the accounting rules under which they operate exacerbate the already confused state of both the Estimates and the Public Accounts, expecially in cases where revenues cannot be fully and comprehensively related to costs. On balance, however, we have concluded that revolving funds should continue in their present form, being credited with the appropriate revenues. Comprehensive financial particulars, however, must be clearly disclosed in departmental Estimates and Annual Reports. We do not believe that any new revolving funds should be introduced until improved public accounting standards, to which we refer in Chapter 16, have been recommended and implemented by Government.

Subsequent Accounting to Parliament The relationship between what Parliament approved in the Estimates and what has subsequently been accomplished must be clearly discernible if proper

accountability is to be exacted from the Government. Having recommended the manner in which expenditure proposals should be made to Parliament, we now turn to the way in which the subsequent accounting is given, the Public Accounts of Canada.

The Public Accounts are submitted to Parliament in three volumes. The first reports the financial transactions of the government as a whole, the second those of departments, and the third those of Crown corporations. In presentation, they suffer from the same drawbacks as the Blue Book; they are dreary, bulky, and confusing. Moreover, they have no direct correlation with the Estimates. The Public Accounts are not a report on performance, and thus not a useful document for accountability. In fact, the Public Accounts Committee rarely uses this document as the basis for its work. It relies instead on the comments and observations made on the details in the accounts submitted in the annual report of the Auditor General.

It is toward Volume II that most criticism must be directed and where there is the greatest need for improvement. This volume of departmental financial statements contains close to 1000 pages, of which half are devoted to the statements themselves, including those of the various funds, boards, commissions and other agencies (but not Crown corporations) reporting through ministers. The format of these financial statements does not correspond to that of the Estimates, and, like the Estimates, the degree of standardization imposed by the Receiver General is such that the statements cannot reflect the varied nature of the activities of different departments. Within these statements are found notes relating to funds, boards, commissions, and other agencies and the Auditor General's reports on them, but there are no such notes or reports relating to the departments where the major portion of expenditures takes place. Senior officers, usually including the senior financial officer, will certify as correct, or simply approve, the financial statements of the subsidiary operations but not those of the departments themselves.

The second part of Volume II consists of seven sections devoted to detail about departments. This includes information on the status of accounts receivable by the different departments, including amounts deleted from accounts receivable during the year, the names of recipients of amounts over $2,000 for professional and special services rendered to the various departments, and particulars of construction and acquisition of land, buildings,

and equipment. In addition there are lists of damage claims, ex gratia payments, federal court awards and nugatory payments, and information about federal-provincial cost sharing programs. Finally, there is some information about salaries, travel expenses, and the like.

Nowhere in this massive volume is there any narrative statement of why expenditures on a given activity, or for a given object of expenditure, have changed significantly in comparison with either the Estimates or the preceding year's expenditures. Indeed, increases or decreases are not reflected in the financial statements in terms of either dollars or percentages. There are no statements of the assets over which individual departments have control or of their liabilities. Nor are there any indicators of performance related to expenditures. Thus, the Public Accounts are unsuited to use by parliamentarians as an accountability document.

The various acts creating government departments, agencies, and Crown corporations require that these organizations submit annual reports on their activities. The departmental acts are silent, however, on the nature and scope of the information to be disclosed in annual reports. As a consequence, there is little consistency among departments in the content of their reports, many of which do not contain any financial data. If they do, it is seldom linked with performance indicators. Some bear dates, others do not. Some, produced in glossy and colourful formats, appear to be marketing devices, while others are printed by a duplicating process and appear to pay no more than lip-service to the requirement for a report on departmental activities.

In summary, on one hand we have the Public Accounts, massive and confusing but containing a good deal, though not all, of the financial information needed to assess departmental performance. On the other hand we have annual reports which provide little information beyond that which departments wish to publicize. We believe that much could be gained by prescribing standards of disclosure for annual reports, standards that would transform them into documents containing a complete account of the way in which departments and agencies had fulfilled the commitments made in their Estimates. In particular, these documents should show the degree to which departments had achieved their objectives, using quantitative indicators wherever possible. Thus transformed, annual reports could serve the function now only partly fulfilled by Volume II of the Public Accounts. They

would become the primary account of departmental and agency performance and would provide Parliament and its standing committees with manageable, complete, and relevant information on which to base performance reviews of the standard that Canadian taxpayers have a right to expect.

These annual reports should be published and tabled in the House of Commons by September 30 following the end of the fiscal year to which they relate so that they can be reviewed by standing committees before they begin their examination of departmental Estimates for the next fiscal year. In this way, the validity of departmental commitments for the future could be realistically assessed against past performance in a logical, and timely way. In chapter 22 we describe more fully the uses to which committees could put these reports. We recommend that

6.9 all departments and agencies be required to prepare complete annual reports by September 30 following the end of the fiscal year to which they relate, that these reports be immediately tabled in the House of Commons or, if the House is not sitting on that date, within 10 days of the time the House next meets, and, that they be automatically and permanently referred to the standing committee that reviews the Estimates of the department or agency concerned; and that

6.10 Volume II of the Public Accounts contain departmental financial statements and other financial data required by the Financial Administration Act, signed by the deputy minister as chief administrative officer and by the senior financial officer, and that it continue to be referred to the Public Accounts Committee.

Additional clarity could be brought to the Estimates and Public Accounts of the various units of government if all were to adopt March 31 as the end of their fiscal year. Some agencies and Crown corporations use other dates, either for reasons of competition or because another date corresponds more closely to the end of a natural business cycle. We believe, however, that these considerations are outweighed by the disadvantages. In particular, the use of a different fiscal year-end tends to disregard the extent to which the different operations of government interlock, especially with

respect to resource requirements. We believe that the government should encourage these few agencies and Crown corporations to change their fiscal year-end to March 31.

It is beyond the scope of this Report to draw up an all-inclusive list of items to be disclosed in Estimates, annual reports, and Public Accounts, or to recommend formats and standards of disclosure. In general terms, we believe that departmental annual reports should contain subject matter comparable to that which major public companies are required by law to disclose. In addition, they should present a clear comparison of what was approved in the Estimates with what actually was spent. The precise nature of such information, however, should be considered by the Public Accounts Committee of the House of Commons in the light of advice and recommendations to the Board of Management by the Comptroller General. The role of the President of the Board of Management in providing this advice to Parliament is among the subjects treated in the next chapter.

7

CONSOLIDATING THE MANAGEMENT FUNCTION OF GOVERNMENT

Implementation of our recommendations for the development and application of a Fiscal Plan, for improved presentation of annual expenditure plans, and for complete reporting of results to Parliament will go a long way toward ensuring accountability for financial management in government. It must be recognized, however, that financial management alone cannot ensure full accountability. The interdependence of financial and human resources must be understood, and managers must be called to account for the management of both finances and personnel by the central agencies of government.

The role of the central agencies is comprehensive. Together, they have the authority and responsibility to watch over the management of government in its broadest sense: to oversee the allocation and use of funds and the deployment of personnel, and to ensure economy, efficiency, effectiveness, competence, and integrity in the public service of Canada. The central agencies must ensure that sound management practices are coherently and consistently applied, that these practices are regularly appraised, and that appropriate action is taken to remedy any weaknesses. It is with the roles and structures of the agencies that carry these central management responsibilities that this chapter is concerned.

Four departments and agencies are responsible for central management: the Treasury Board and its twin secretariats, under the leadership of the Secretary of the Treasury Board and the Comptroller General; the Department of Finance; the Privy Council Office; and, the Public Service Commission. Each is expected to give general direction to managers in government by providing central guidance and services to individual departments and agen-

cies involved in the operation of programs and activities. At the same time, central agencies must take care not to usurp the individual responsibilities of departments and agencies for the management of their affairs. While the responsibilities for the central management of government can thus be identified, the individual responsibilities of the four entities that make up the centre are often hazy; jurisdiction is fragmented and roles are confused.

The *Financial Administration Act*, for example, vests in the Treasury Board responsibility for general administrative policy, the organization of the public service, and, among other duties, the important personnel management responsibilities of classification, rates of pay, collective bargaining, and conditions of employment. The vital role of staffing the public service—selecting, promoting, transferring, and dismissing employees—has, however, been assigned to the Public Service Commission under provisions in the *Public Service Employment Act*. Further, while the *Financial Administration Act* gives the Minister of Finance the management of the Consolidated Revenue Fund, it is to the Minister of Supply and Services that responsibility for the day-to-day management of cash, and for other duties of the Receiver General, is assigned. More recently, within the jurisdiction of the Treasury Board, duties have been split between the Comptroller General and the Secretary of the Treasury Board in such a way that responsibility for the preparation and screening of Estimates is separated from the financial information systems required to monitor departmental and agency performance against these plans. These split responsibilities have confused and blurred the accountability of the central agencies themselves and of the departments and agencies to them.

The present arrangement of central responsibilities is the result of a long process of change and development in government organization and management. We recognize from our research that there are sound historical reasons for the fragmentation of many of the responsibilities at the centre. The Public Service Commission was given exclusive authority to make appointments to and within the public service in order to preserve the merit principle as the basis for appointment and to avoid political patronage. The role of the Receiver General and responsibility for the central accounting system were assigned to the Minister of Supply and Services at a time when few in either government or

the private sector fully appreciated the importance of cash management. Notwithstanding these considerations, we believe that sound management within government will not be secured until responsibility for its achievement is clearly assigned to an identifiable unit. Moreover, this assignment of responsibility must be accompanied by adequate review and monitoring procedures to hold to account those public servants who manage the financial and personnel resources of government. Resources must be used economically and efficiently to accomplish clearly assigned tasks, and a forum must be established where administrative performance can be fairly but rigorously evaluated.

We believe that these objectives can only be met if central responsibility for ensuring the economical, efficient, and effective implementation of programs as well as responsibility for maintaining a public service with the highest standards of competence, integrity, and motivation are vested in a single agency. Several interrelated steps will be required to accomplish this goal. We recommend that

7.1 the Financial Administration Act be amended to rename the Treasury Board the *Board of Management*, that the new Board be chaired by a senior minister with the title *President of the Board of Management*, and that one of the other five ministers be appointed *Vice-President of the Board of Management*; that

7.2 the Board of Management have the responsibilities set out in Sections 5 and 7 of the Financial Administration Act for general administrative policy, organization of the public service, financial management, and personnel management; that

7.3 with regard to financial management, the Board of Management have responsibility to review annual and longer term expenditure plans and programs of departments and Crown agencies requiring appropriations from the Consolidated Revenue Fund, and that these plans and programs be reviewed to ensure that they are in accordance with the priorities and expenditure ceilings approved by the Cabinet in the Fiscal Plan, and that they have been prepared with due regard to the economical and efficient use of personnel and money; that

7.4 the Public Service Employment Act be amended so as to transfer the authority of the Public Service Commission for staffing the public service to the Board of Management, while leaving with the Public Service Commission continuing responsibility for the preservation and monitoring of the merit principle; and that

7.5 the Board of Management have responsibility for reviewing the effectiveness with which departments and agencies administer the programs and activities set out in their annual expenditure plans.

The Board of Management would provide a single focus for the central management of government, consolidating the responsibilities for personnel and financial management. This consolidation would enable the establishment of clear lines of accountability for all facets of management from departments and agencies, through the Board of Management, to Parliament. The activities of the Board of Management, as its name implies, should be directed toward monitoring departments and agencies in the administration of their programs and acivities, ensuring the development and application of government-wide policies, practices, and standards for consistency and fairness in the management of people and money, and acting as employer for the purpose of collective bargaining. While the Board would continue to have a role in resource allocation, less time would have to be devoted to this activity, since the critical decisions regarding the establishment of expenditure ceilings for departments and agencies would have been made during the preparation of the Fiscal Plan. The role of the Board would be to ensure that Government priorities were being respected and that value for money was being achieved within expenditure ceilings. In addition, the Board would provide an appropriate forum for the review and evaluation of departmental performance.

To assist the Board of Management in carrying out these responsibilities, significant changes in staff support will be necessary. We recognize the danger of overburdening the Board and its staff; the transfer of the staffing activity, for example, entails an entirely new operational role for the Board of Management. It is in this respect that the Vice-President of the Board of Management would play a critical role. The Vice-President could help to relieve

the burden on the President of the Board, for example, in personnel matters, particularly where the Board's responsibility as employer involves activities such as collective bargaining, which is extremely time consuming. The Vice-President could also assist in the review of departmental expenditure plans and programs. Although the appointment of a Vice-President would help to ensure that the Board's responsibilities were fulfilled, the effectiveness of the Board also depends on the establishment of clear responsibilities and duties for the staff supporting the Board.

Staff Support By bringing personnel and financial management responsibilities together under the Board of Management, the Cabinet would acquire a means of exercising the leadership needed to improve management systems across government. The Board of Management would be the only source of delegated authority and the single forum within government for calling managers to account. The consolidation of responsibility for management policy would permit more consistent and coherent delegation of authority to deputy heads, thereby allowing them greater freedom and flexibility to manage, while at the same time providing a clear basis for accountability. It also has important implications for the staff support required to carry out the Board's responsibilities.

One of the reasons for establishing the position of Comptroller General was to relieve the burden on the Secretary of the Treasury Board. Two years ago the Secretary was expected to co-ordinate and manage, on behalf of ministers, the allocation of resources to programs and activities and the development and promulgation of government-wide financial management policies, standards, and practices. In addition, he was required to administer policies, standards, and practices concerning, among other matters, contracts, accommodation, and travel, and personnel management policies in the areas of classification, compensation, training, and career development. Further, it was the Secretary's responsibility to act on behalf of the employer in collective bargaining and to oversee the implementation of official languages policy in the public service.

With the appointment of a Comptroller General, the burden is now shared by two independent deputy ministers of equal status. The current division of responsibilities might well lead, however, to jurisdictional disputes between the two because both carry out closely-related responsibilities in the financial area. While the Secretary of the Treasury Board recommends approval of the

content of the Estimates, including statements of program objectives, the Comptroller General advises on the *format* of the Estimates and recommends the accounting and reporting policies and practices used to record the achievement of results. Thus, two organizations are now effectively responsible for the reports on the Government's expenditure plans and results that reach Parliament. Furthermore, both require a detailed knowledge of how resources are being managed in departments and agencies.

This situation is bound to lead to duplication, despite the best efforts of both organizations to co-ordinate their work. Employing staff to perform duplicate functions leads to the further danger that expertise, which could be fully used in a single agency, will be under-used. Moreover, accountability for the central management of the financial activity is blurred by the existence of overlapping responsibilities.

The transfer of responsibility for staffing to the Board of Management would bring with it new operational responsibilities, particularly in the areas of recruitment, training, and career planning for the senior managers of government. When these are combined with existing responsibilities for collective bargaining, classification, pay, and the terms and conditions of employment, it becomes apparent that the scope and importance of the job justify the existence of a separate organization within the Board of Management to oversee personnel matters.

The review of departmental administrative performance would also add to the work of the staff of the Board. Still, this review is vital to the achievement of an improved accountability régime. Not only would departmental management performance be under examination; the adequacy of central agency policies and directives would also be tested. Given these extensive responsibilities, a realignment of duties and responsibilities among the staff supporting the Board is necessary. In addition, the problems of duplication and overlap that we described would be overcome by the creation of two distinct secretariats under the direction and management of the President of the Board of Management. We recommend that

7.6 the Board of Management be supported by two secretaries of the Board, one, the *Secretary for Personnel Management*, and the other, the *Comptroller General*; that

7.7 under the direction of the President of the Board of Management, the Secretary for Personnel Management have the central management responsibilities for government-wide policies on manpower planning; appraisal of personnel at the senior management level, and career development of the senior management cadre; collective bargaining; administrative policies relating to personnel, official languages, and training; and, that the Secretary for Personnel Management ensure that positions are correctly classified, departments are staffed in accordance with the Public Service Employment Act, and that departmental organization is monitored and reviewed; that

7.8 under the direction of the President of the Board of Management, the Comptroller General have the central management responsibilities for the screening of departmental plans and Estimates; advice on departmental expenditure ceilings and man-year ceilings in the Fiscal Plan; program evaluation policies and procedures, including performance measurement standards; the preparation of the Consolidated Estimates and the Public Accounts; accounting principles and practices, including standards of disclosure required in annual reports and financial statements; the organization of financial services and internal audit in departments; the training and development of financial officers; and, administrative policies concerning contracts and the procurement of matériel and services; that

7.9 the Secretary for Personnel Management and the Comptroller General together be responsible, on behalf of the Board of Management, for reviewing the economy, efficiency, and effectiveness with which departments and agencies administer the financial and human resources authorized by Parliament; that

7.10 two secretariats for the Board of Management be established, the *Personnel Management Secretariat* to be headed by the Secretary for Personnel Management and the *Financial Management Secretariat* to be headed by the Comptroller General; and that

7.11 the Secretary for Personnel Management and the Comptroller General draw from their respective secretariats a common staff support group for co-ordinating the preparation of agendas, the recording of minutes and decisions of the Board of Management, and for communicating to departments and agencies the action required of them.

Personnel Management

The maintenance of high standards of economy, efficiency, and effectiveness in the delivery of government programs requires a well-motivated, competent, and industrious public service. Changes in financial management practices will not improve management within government unless they are accompagnied by changes in central responsibilities for personnel management policies and procedures. In order to clarify central personnel management roles and structures, we have recommended that responsibility for staffing be transferred to the Board of Management and placed under the direction of the Secretary for Personnel Management. If this does not occur, a vital part of management will remain outside the control of the body responsible for the quality of management of and in government.

Personnel management is currently governed by three acts, the *Financial Administration Act*, the *Public Service Employment Act*, and the *Public Service Staff Relations Act*. Administration of these acts has been entrusted to three organizations, the present Treasury Board Secretariat, the Public Service Commission, and the Public Service Staff Relations Board. In addition, the Privy Council Office plays an important role in personnel management by advising the Prime Minister with respect to the appointments of deputy heads.

The *Public Service Employment Act* gives the Public Service Commission the exclusive right and authority to make appointments to and within the public service, and requires that appointments be based on selections made according to merit and in accordance with procedures and standards prescribed by the Public Service Commission. The Act also sets out the requirements for holding competitions and conducting appeals, and specifies some of the conditions of employment. These include probation

periods, procedures for laying off employees, the rules for dismissal on the grounds of incompetence or incapacity, and constraints on political participation.

The staffing responsibility of the PSC includes the recruitment, selection, appointment, transfer, promotion, demotion, and release of public servants. In recent years, the Public Service Commission has delegated to deputy ministers a substantial measure of this authority for appointments to positions below the senior management level. This authority is delegated under a formal agreement and is circumscribed by procedures established by the PSC. The Public Service Commission retains authority for appointments to senior management positions and is an active participant in selection and career development at this level. In addition, the PSC has accepted operational responsibilities for training and staff development, tasks that are assigned to the Treasury Board under the *Financial Administration Act*.

The Public Service Commission has two distinct roles. While the conduct of operational responsibilities make it part of central management, the PSC must be set apart from Government direction and control in the conduct of its appointment role in order to ensure the selection of public servants on the basis of merit. In carrying out staffing, however, the Public Service Commission must work closely with the Personnel Policy Branch of the Treasury Board Secretariat and with departments. In this way, responsibility for the conduct of personnel management must be shared. Because all other central management responsibilities for personnel are assigned to the Treasury Board, constant collaboration between the Treasury Board Secretariat and the Public Service Commission is required to ensure a consistent and comprehensive personnel management policy.

Finally, the *Public Service Staff Relations Act* governs collective bargaining in the public service and brings a third organization into the picture, the Public Service Staff Relations Board (PSSRB). Of particular interest to us is the role assigned to the PSSRB for the adjudication of grievances arising out of collective agreements. The Board's jurisdiction includes any grievance or complaint specifically related to discipline. Thus, both the Public Service Staff Relations Board and the Public Service Commission operate systems for recourse and redress, the PSSRB with respect to discipline, and the PSC with respect to allegations of incompetence and incapacity, and improper selection.

Confusion can, therefore, arise between the respective roles of the Public Service Commission and the Public Service Staff Relations Board regarding appeals. Under the *Public Service Employment Act*, an employee can be dismissed for incompetence or incapacity, or rejected on probation. Dismissal for incompetence or incapacity is appealable under the PSEA, but rejection on probation is not. Nevertheless, all three actions might be appealable under the *Public Service Staff Relations Act* if the employee can persuade the PSSRB that the action was disciplinary. For the employee who is appealing, the confusion can lead to injustice; once an employee has chosen to seek redress under one act, the second avenue of appeal is closed to him. For the employer, the time involved in dealing with appeals can seriously impair administrative performance. Half of all staffing appeals are launched, not because the wrong person was awarded the job, but because incorrect selection procedures were followed.

The Government has recognized this confusion and has taken steps to improve the situation. The Special Committee on Personnel Management and the Merit Principle in the Public Service was established in February 1977 to examine all matters relating to the *Public Service Employment Act*, particularly with respect to the merit principle and its application to appointment and promotion within the public service, procedures available to employees for appeal or redress relating to appointment, promotion, and demotion, and access of employees to training. The Committee has issued an initial report outlining the problems and key issues under consideration.

We have described in some detail the responsibilities involved in the central management of personnel to illustrate the fragmentation that now exists. Adequate accountability for personnel management cannot be achieved until roles and responsibilities at the centre are clarified. Consolidation of personnel management responsibilities in the Board of Management would remedy the inadequacies we have described. We recognize that the transfer of staffing authority to the Board of Management will place this important responsibility with a committee of ministers, and that our recommendation could be questioned on the grounds that it will undermine the principle of an impartial and non-partisan public service. We do not agree with this analysis. Protection against political or bureaucratic patronage is to be found in the provisions of the *Public Service Employment Act*. These provisions

will continue to apply to appointments made by the Board of Management with the same rigour that now applies to Public Service Commission appointments. Moreover, any delegation of staffing authority by the Board would not be to an individual minister, but to public servants, namely the Secretary for Personnel Management or deputy ministers and their counterparts in Crown agencies coming under the authority of the PSEA.

We will also be strengthening the safeguards against the abuse of the merit principle with our recommendations for an independent watchdog for Parliament in the form of a reconstituted Public Service Commission which would have an unencumbered mandate to report any instance of political or bureaucratic patronage. This important servant of Parliament would see to it that the Board of Management administers staffing in the public service in strict accordance with the provisions and regulations of the PSEA. The transfer of authority would also remove the paradox that now exists within the Public Service Commission. While the Public Service Commission is charged with an essential central management task—staffing the public service—it is also charged with ensuring, on behalf of Parliament, that this task is carried out in accordance with rules laid down by Parliament. Accountability for this task suffers when the Public Service Commission, in effect, monitors itself through its review systems. Consolidation of personnel management responsibilities in the Board of Management would clarify the lines of accountability for staffing on the one hand and monitoring staffing procedures on the other. We recommend, therefore, that

> **7.12 the Public Service Employment Act be amended to give the Board of Management the authority to make appointments to and within the public service, and to specify that the Board of Management delegate this authority only to the Secretary for Personnel Management or to deputy ministers and their counterparts in Crown agencies.**

We are confident that the implementation of these recommendations will clarify central responsibility for personnel management. The clear and undivided assignment of operational responsibilities to the Secretary for Personnel Management will help to ensure that an account is rendered, both within government and to Parliament, for the performance of this essential component of management. The responsibilities we recommend for the Secretary

for Personnel Management would, in many instances, parallel the responsibilities that should be vested in the other Secretary of the Board of Management, the Comptroller General.

For example, the Secretary for Personnel Management should have an important role in the selection and appointment of managers in the senior executive and equivalent groups. We propose that the Secretary for Personnel Management maintain records and draw up lists of candidates for assistant deputy minister positions in order to provide deputy ministers with information about potential senior executives. In addition, lists of candidates for senior personnel officer positions should be prepared by the Secretary for Personnel Management. We recommend, therefore, that

> **7.13 the Secretary for Personnel Management be responsible for appointing assistant deputy ministers and their equivalents, including senior personnel officers and senior financial officers, on the recommendation of the deputy head concerned.**

The Secretary for Personnel Management should also have a responsibility for identifying individuals inside government who have the potential to become effective deputy ministers, and bringing them to the attention of the Prime Minister's adviser on senior appointments.

In addition to responsibility for training policy, the Secretary for Personnel Management should also have the operational responsibility in this area. Transferring this responsibility from the Public Service Commission will place significant demands on the Secretary; however, training is an integral part of personnel management and should, therefore, rest with the Secretary. The training activity should be located in a separate, visible organization reporting to the Secretary for Personnel Management and should be funded and managed on the same basis that we recommend for common services. The training service should be fully costed and revenue dependent, with a fee structure set by the Board of Management on the advice of the Comptroller General. We recommend that.

> **7.14 the Board of Management reassume the Treasury Board's full responsibility for training, and delegate the authority for carrying it out to the Secretary for Personnel Management; and that**

7.15 training services be provided through a separate, revenue dependent organization reporting to the Secretary for Personnel Management and subject to the accountability régime set out for common service organizations.

In the area of personal evaluation, we expect that the Secretary for Personnel Management would provide leadership and guidance so that governement-wide standards are set for the appraisal of performance. As well, the Secretary for Personnel Management would have vital responsibility in the development of personnel managers; the selection, appointment, and career planning of senior managers in the personnel area should be of prime concern to him.

A New Role for the Public Service Commission

A major weakness in personnel administration is the relative lack of parliamentary surveillance of this activity. The Public Service Commission submission to this Commission pointed out that there is no parliamentary review of personnel management comparable to the review of financial management by the Public Accounts Committee. Although in recent years the Public Service Commission has taken steps to improve the content of its annual reports and to brief Members of Parliament on the issues and problems facing the Public Service Commission, accounting to Parliament for personnel management remains inadequate. This is partly due to the fact that the relationship between Parliament and the Public Service Commission is unclear. The legal status of the Commission is akin to that of an independent deciding or advisory body; there is nothing in the *Public Service Employment Act*, for example, to suggest a supportive role comparable to the role outlined in the *Auditor General Act*. It is unclear whether the PSC should appear before a parliamentary committee to account for the exercise of its staffing authority, as well as to provide an independent assurance that staffing has been carried out on the basis of merit.

Clearly, Parliament should receive an accounting for both, but the two reports should come from different sources. Accounting for personnel management activities should become the respon-

sibility of the Secretary for Personnel Management at the centre and of deputy heads at the departmental and agency level. The Public Service Commission should report directly to Parliament on its responsibility for ensuring that appointments within the public service are based on merit and are not subject to political or administrative patronage. The independence necessary for this task should be established by requiring that both Houses of Parliament ratify the appointments of Public Service Commissioners, by establishing tenure, during good behaviour, for a period of ten years, and by permitting removal by the Governor in Council only on address by both Houses. In addition, the salary of the Chairman and Commissioners should be set by statute and they should not be subject to the appraisal procedures applicable to Governor in Council appointees. The Public Service Commission should be empowered to request any documents and information necessary to the fulfilment of its duties, and should have the right to require and receive from members of the public service such reports and explanations as it deems necessary.

We see three tasks involved in fulfilling this responsibility. First, the PSC should examine the personnel policies and procedures established by the Board of Management and promulgated by the Secretary for Personnel Management and the deputy heads to whom personnel management responsibilities have been delegated, to ensure that the merit principle is protected at all times. It should pay special attention to the internal audit programs of departments so that non-compliance will be detected and reported to the deputy head and to the Secretary for Personnel Management.

Second, the Commission should continue to hear appeals against staffing actions where an appellant contends that the merit principle has been violated. If the Commission upholds an appeal, it should be able to direct the Secretary for Personnel Management to revoke the appointment and to institute new selection procedures. Furthermore, before launching an appeal, an employee should be able to consult the Commission on a confidential basis to determine whether he has legitimate grounds for complaint.

Finally, the Commission should report annually to Parliament. With respect to the merit principle, this report should reveal at least the following information:

- whether personnel policies and procedures throughout the public service ensure the protection of the merit principle at all times
- whether departmental internal audit provides for review of compliance with these personnel policies and procedures, and the extent to which internal audit has revealed non-compliance with the merit principle
- statistical data set out by department and agency showing, for example, the number of confidential preliminary inquiries made by employees, the number of appeals heard, the number of directives to the Secretary for Personnel Management, and the number of appeals pending.

The implementation of these proposals would help to ensure an impartial, non-partisan public service, the benefits of which we fully support. While public service unions would continue to scrutinize appointments on behalf of their members, the confidential consultation procedure we have suggested would protect public servants outside bargaining units against the pitfalls of launching an untenable appeal. Furthermore, the objectivity and fairness of the appeal process would be strengthened if it rests with a Public Service Commission with no responsibility for staffing.

Appendix A of this Report sets out a new classification scheme for departments and Crown agencies in government. Among the six entities identified as *Parliamentary Departments*, are the Auditor General and the Canadian Human Rights Commissioner. The role we have defined for the Public Service Commission requires that it be included in this group of *Parliamentary Departments*. All are servants of Parliament with special reporting functions and with responsibilities requiring that they be granted a measure of autonomy in carrying out their duties. We recommend that

> **7.16 the Public Service Commission be reconstituted as a *Parliamentary Department* with the duty of ensuring that selection and appointment to the public service are made on the basis of merit, and that the PSC report annually to Parliament those instances where personnel policies, procedures, and actions fail to support the merit principle; that**

7.17 the autonomy of the Public Service Commission be assured by providing that the appointment of Commissioners by the Governor in Council be for ten years during good behaviour and be subject to ratification by the Senate and the House of Commons, and that removal be upon address of both Houses of Parliament; and that

7.18 the Public Service Commission have the power to direct the Secretary for Personnel Management to cause appointments to be revoked and to institute new competitions or other selection procedures.

While we have not examined the question of appeals and redress of grievances in depth, we have identified the major issues with which senior managers who met with us are most concerned. The subject is within the mandate of another inquiry, the Special Committee on Personnel Management and the Merit Principle in the Public Service. It is our hope that the work of that Committee will lead to remedies for the delay and frustration caused by the complexity of existing appeal and grievance mechanisms. In the meantime, the Public Service Commission should continue to have responsibility for hearing the appeals against improper selection or wrongful dismissal of employees provided for in Sections 21 and 31 of the *Public Service Employment Act*. Similarly, the Public Service Staff Relations Board should continue to administer the grievance and appeal procedures set out in the *Public Service Staff Relations Act*.

Financial Management

Although the Auditor General acknowledged in his 1978 report that some progress had been made toward improving financial administration, he stated that there is "widespread lack of due regard for economy and efficiency in the operations of the Government, and inadequate attention to determining whether programs costing many millions of dollars are accomplishing what Parliament intended".† Nothing that has come to our attention would

† Canada. Office of the Auditor General. *Report, 1978*, p. 6.

suggest that the inadequacies of government financial management and control have been overstated. We believe that within the existing organization of government, the Auditor General's recommendations for improvement are sound.

The Government has taken some steps toward implementing these recommendations. The most significant was the announcement in April 1977 of the intention to establish the position of Comptroller General. We believe, however, that the authority and responsibility of the Comptroller General must be augmented if he is to pursue his role as chief financial officer of the Government of Canada effectively.

The chief financial officer of the Government of Canada has a primary responsibility to ensure that value is obtained for public money. He must, therefore, ensure that management systems are designed and monitored to make certain that economy, efficiency, and effectiveness are given sufficient consideration in the planning and implementation of all programs and activities. To fulfil this responsibility, the chief financial officer should have the authority to scrutinize spending proposals, to ensure that their implementation is monitored and their achievements evaluated, and to see that programs and activities are conducted with integrity and probity. He should be able to scrutinize and report both the estimated cost of proposals and the actual cost of implementation according to acceptable methods of accounting. As well, he should be able to assure that accounting, payroll, and other management information systems provide accurate, relevant, and timely financial data to those who need them. The chief financial officer should be able to ensure that financial management personnel throughout the government have the technical proficiency required to fulfil their responsibilities efficiently and effectively.

In announcing the Government's intention to create the position of Comptroller General, the President of the Treasury Board stated that "the Comptroller General [would] be responsible to Treasury Board for the quality and integrity of the financial control systems and administrative policies and practices in use throughout the federal Public Service." He further stated that "the entire responsibility for the control and direction of the resource allocation and control processes . . . [would] not be changed . . . [but would] rest with the secretary of the Treasury Board." The Comptroller General's authority and responsibility would be applicable to "expenditure control systems and related

administrative practices and procedures designed to operate *after* and within the authorization of the allocation of resources by the government and, of course, by Parliament."[†]

To enable the Comptroller General to fulfil his mandate, the Financial Administration Branch and the Efficiency Evaluation Branch of the Treasury Board Secretariat were placed under his authority. Within the Financial Administration Branch, the Financial Policy Development Division is responsible for recommending to the Treasury Board new or amended rules of accounting, financial control practices to be followed in the public service, financial reporting procedures to be followed by departments and agencies, and rules governing the preparation of budgets and the exercise of budgetary control by departments and agencies. The Professional Development Division is concerned with the organization, structure, and staffing of the financial management activity, and the training and development of financial personnel. The Financial Policy Evaluation Division conducts department-by-department reviews of compliance with Treasury Board directives and guidelines. The Efficiency Evaluation Branch is responsible for ensuring that departments and agencies are implementing new Treasury Board policies relating to performance assessment and program evaluation. This Branch must ensure that departments and agencies have systems in place to enable them to conduct satisfactory program evaluations using adequate and objective measurement procedures.

Notwithstanding this support, the Comptroller General's effectiveness is seriously hampered by the Government's express decision to make his responsibility for expenditure control systems applicable only "*after* and within the authorization of the allocation of resources". His authority is further limited by the inadequacy of the tools at his disposal, in particular, the Estimates and the Public Accounts, and program evaluation, accounting, payroll, and management information systems.

We do not believe that accountability between a central agency and individual departments and agencies can be established unless the same unit that screens spending proposals also evaluates the economy and efficiency of program management. The current division of duties between the Secretary of the Treasury Board and the Comptroller General, which divorces these two important

[†]Canada. House of Commons. *Debates*, p. 4949, April 25, 1977. (Our emphasis).

responsibilities, constitutes a major weakness. We propose that the weakness be remedied by placing responsibility for screening departmental and agency Estimates with the Comptroller General and by strengthening the tools available to him for ensuring that programs are being managed with due regard for economy, efficiency, and effectiveness.

While the authority for establishing the format and standards of disclosure for the financial information submitted to Parliament should rest with the President of the Board of Management, the Comptroller General should have practical responsibility for recommending and for ensuring adherence to these standards. This would permit rapid and efficient implementation of recommendations made in the past to improve the format and the content of this information. We believe that the Comptroller General should have the authority, and the responsibility, to ensure that departments and agencies provide the financial information needed on a relevant, accurate, and timely basis.

The Screening of Estimates Responsibility both for screening and recommending the approval of expenditure plans and for subsequently monitoring the way in which they are implemented, must be located in the same place. Both should be carried out by someone with a thorough awareness of management capability, so that the realism and reliability of expenditure plans can be assessed. For this reason we recommend that

7.19 the Program Branch of the Treasury Board Secretariat be transferred to the Financial Management Secretariat.

The diverse responsibilities we recommend for the Comptroller General require that his office have the broad knowledge of departmental management capability necessary to review expenditure plans and to monitor their implementation. The transfer of the Program Branch would provide this knowledge and would enhance the Comptroller General's ability to carry out the activities we recommend. Furthermore, we believe that the present Program Branch of the Treasury Board Secretariat could be the nucleus of a new program review branch. This branch would also encompass the activities of the Efficiency Evaluation Branch, which already reports to the Comptroller General, and should absorb some of the responsibilities of the Financial Administration

Branch for the preparation of, and control over, departmental budgets.

The screening and recommending process now conducted by the Program Branch and the Treasury Board is known as "resource allocation". This title would no longer apply to the process once our recommendations for the Fiscal Plan have been implemented. Resources would be allocated by the Cabinet through the establishment of expenditure limits by function for five years and by department and agency for three years and their inclusion in the annual Fiscal Plan. It would be up to departments to determine how best to use funds within these limits to achieve their own and the Government's priorities. The role of the Board of Management secretariats would be to screen expenditure proposals, a process we describe in Chapter 11. The role of the Board of Management should not be to negotiate levels of expenditure for individual programs, nor should it be an attempt to change departmental spending plans and priorities. Both require decisions about the relative importance of programs, decisions that should be made by departmental management. Rather, we believe the role of the Comptroller General's staff should be to counsel and guide departments, to ensure that their Estimates fit into their long-term plans in a logical way, that they have identified their long and short-term goals, that their plans take into account observations of the Auditor General, the Public Accounts Committee, and others concerned with program management, and finally, that proposed expenditures do not exceed limits established in the Fiscal Plan. With respect to screening Estimates, we recommend that

> **7.20 the Comptroller General be responsible for screening and recommending the approval of departmental Estimates to the Board of Management.**

Evaluating Program Management To fulfil its responsibility for the quality of management in the public service, the Board of Management must monitor the management of departments to ensure that programs are being evaluated for economy, efficiency, and effectiveness. The Board should be supported in this role by the Comptroller General and his staff. At present a survey entitled Improvement in Management Practices and Controls (IMPAC) is being conducted in twenty government departments by his office. The IMPAC survey is assessing the extent and nature of management and control weaknesses in order to indicate priority action

needed in each of the departments under study. As significant as the IMPAC program, is a program evaluation study being conducted by the Comptroller General to determine how departments should establish a plan for evaluating programs and activities. This study should result in plans to evaluate activities selected on the basis of their relation to departmental priorities, ease of evaluation, and a comparison of the cost of evaluation with potential benefits.

Further steps are, however, necessary. Among the reasons for the low level of concern for economy, efficiency, and effectiveness among program managers is the absence of any means of ensuring that the risk of resources being squandered is minimized. The new *Auditor General Act* requires that the Auditor General report to Parliament any cases where he has observed that money has been spent without due regard to economy or efficiency, or where satisfactory procedures have not been established to measure and report on the effectiveness of programs. While this is a step in the right direction, it does little to prevent such occurrences. If the fundamental weaknesses that lead to inefficiency were corrected, there would be few such instances for the Auditor General to detect.

We have reviewed the Treasury Board circular on program evaluation and have noted the Comptroller General's published comments on the topic. They support the concept of encouraging managers to manage by providing them with the tools to do so. We believe, however, that in this key area the Board of Management must adopt a more active role than has been suggested. The concepts and purposes of program evaluation are not sufficiently well established and understood in government to enable the Board of Management to rest assured that evaluation is being carried out on a systematic basis. Rather, the Board of Management as part of its central management responsibilities should be able to require that particular programs or activities be evaluated by departments according to standards set by the Board in consultation with them, to review the substance and conclusions of these evaluations, and to cause appropriate action to be taken when findings reveal deficiencies resulting in waste, duplication, or ineffectiveness. This joint approach should be taken in a spirit of co-operation, particularly during the early years of program evaluation; collaboration, objectivity, and fairness remain the keys to success.

Government activities do not always lend themselves to watertight divisions; two or more departments may be involved in pursuing similar objectives. Jurisdictional disputes can lead to reluctance to conduct evaluation. Similarly, an activity important to one minister may be closely related to the responsibilities of another minister who may not share the concern. In these circumstances the Board of Management should be able to direct that evaluations be conducted by two or several departments to clarify jurisdictions, assess performance, and, as a result, eliminate overlap and duplication. There is also a risk of wasting expensive and time-consuming research and a danger of a proliferation of evaluations, varying in objectivity, if there is no central source from which departments can obtain guidelines and minimum standards for program evaluation that carry with them the authority and weight of the Board of Management.

The Comptroller General should also take a significant part in ensuring that appropriate action is taken on the results of evaluation. During the course of our inquiry, we were surprised by the extent to which many of the subjects we were considering had previously been reviewed by task forces, committees, and auditors. In many cases, suggestions and recommendations had been made, but no action had been taken. This did not appear to be due to any unwillingness to act, but rather to the government-wide problem of ambiguous jurisdiction. If the Board of Management is to fulfil its responsibilities, it must be able to cut through these difficulties and to direct, where necessary, that appropriate action be taken.

The Board of Management should also have the right to permit the Comptroller General to conduct program evaluation where circumstances dictate. The *Auditor General Act* requires that the Auditor General advise Parliament of cases in which he has observed that satisfactory procedures have not been established to measure and report the effectiveness of programs; it does not direct him to report on the effectiveness of programs. Consequently, a department could have a highly satisfactory procedure to measure program effectiveness, but could continue to run an ineffective program for years. The evaluation procedure would detect ineffectiveness but would not force corrective action. The Comptroller General should, therefore, be able to undertake program effectiveness evaluation in cases where the Board of Management, or perhaps the responsible minister, is concerned about the quality of departmental program management. This kind of

evaluation should be undertaken rarely and judiciously. The Comptroller General should seek written agreement from the deputy head concerned on the nature and extent of his evaluation, and the quantifiable objectives of the program to be evaluated. The Comptroller General should discuss the results of the evaluation with the deputy and report his findings, along with any comments by the deputy head, to the minister and to the President of the Board of Management for action as the President sees fit.

In summary, while departments would be responsible for establishing and implementing a program evaluation plan, the Comptroller General would also have a vital role to play. We recommend that

> **7.21 the Comptroller General be empowered by the Board of Management to require that departments conduct specific program evaluations in problem areas identified by the Board, that the Comptroller General set standards for these evaluations, and that the Comptroller General recommend to the President of the Board of Management that action be taken where program evaluation is hindered by jurisdictional disputes; and that**
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> **7.22 the Board of Management direct the Comptroller General, as required, to conduct an evaluation of the effectiveness of any program or program component, or of the economy and efficiency with which a program or component is managed.**

Monitoring Expenditures The Estimates and the Public Accounts are two important financial reports made to Parliament; to these we add the Fiscal Plan. These reports should eventually be supplemented by quarterly financial statements comparing the expenditures requested in the Consolidated Estimates with actual expenditures. These should be prepared by the Financial Management Secretariat from its Consolidated Revenue Fund records and from financial information submitted by departments and Crown agencies. The preparation of these reports would provide an opportunity for the Comptroller General to ensure that departments were preparing accurate and relevant financial information throughout the year. As well, it would provide him with information about actual or potential implementation problems, expenditure overruns or lapses, and whether statutory expenditures were being made at rates different from those forecast.

Presenting Information to Parliament There are several deficiencies in the financial information received by Parliament. As we explained in Chapter 6, the Estimates do not disclose fully or clearly why resources are requested, how they will be used, or what the results of using them will be. The Public Accounts do not give a comprehensive report of how resources were used and what transpired as a result of using them. In addition, since responsibility for the form and content of the Estimates and the Public Accounts is divided among three different departments, the information contained in one is not comparable to that contained in the other. Estimates are presented to Parliament by the President of the Treasury Board; responsibility for their format and content lies with the Program Branch of the Treasury Board Secretariat. The Public Accounts are presented by the Minister of Finance, but they are prepared by the Receiver General whose duties are carried out by the Minister of Supply and Services.

Some suggestions for improvement have been made, but we believe that improvement will not be possible until responsibility for all these financial documents is consolidated. Authority and responsibility for the format and content of all government-wide financial documents must be placed with the President of the Board of Management and then delegated to the Comptroller General. As the chief financial officer of government, he must be able to examine all financial information before it is submitted to Parliament in order to ensure that it is relevant, accurate, comprehensive, and timely. He must be able to propose changes and have them made where the information does not meet these criteria. He must be in a position to consider the observations of the Auditor General and the Public Accounts Committee in the light of this information so that response can be made to criticism. None of these can be accomplished in a logical and coherent way under the present division of responsibilities.

In framing our recommendations we have been careful to distinguish between financial information that should be presented to Parliament under authority delegated to the Comptroller General, and financial information contained in departmental Estimates and annual reports that should be presented by individual ministers as part of their responsibility. The Comptroller General should prepare the Consolidated Estimates and the Public Accounts for submission to Parliament by the President of the Board of Management and should sign the Consolidated Estimates

and that part of the Public Accounts that relates to government-wide information. With respect to departmental Estimates and annual reports, the Comptroller General's responsibility should be to ensure, through consultation and screening, that financial information is relevant, accurate, and comprehensive and that it is presented in a correct and consistent manner. To this end, we recommend that

7.23 authority and responsibility for the format and content of the Consolidated Estimates and the Public Accounts be assigned to the President of the Board of Management, and that he be supported in these responsibilities by the Comptroller General; and that

7.24 the Comptroller General recommend standards of disclosure and accounting to the Board of Management for use in all Estimates, the Public Accounts, and annual reports submitted to Parliament, and that he ensure that the standards approved by the Board are adhered to.

Improvement in the quality of financial information presented to Parliament is both important and long overdue. The task of improving financial information is, however, separate from the many other responsibilities that we propose for the Comptroller General. A comprehensive review of the many recommendations for change will be required, a synthesis of these proposals will have to be made, and legislative changes will be required before significant improvements are possible. We believe that the importance and complexity of this task should be recognized by the appointment of a *Chief Accountant of the Government of Canada* who would report to the Comptroller General. The person appointed to this position should have an impeccable background in the theory and practice of accounting and an excellent knowledge of the parliamentary process. Having the opportunity to assign this important responsibility to a competent subordinate would enable the Comptroller General to provide leadership and direction in this important area while at the same time ensuring that the necessary technical competence is provided at a senior level and on a full-time basis. We recommend that

7.25 a *Chief Accountant of the Government of Canada* be appointed to assist the Comptroller General in determining the format and content of the Consolidated Estimates and the

Public Accounts, in setting standards of disclosure and accounting to be used in Estimates, Public Accounts, and annual reports, and in ensuring that approved standards are maintained.

In recognition of the importance of this task, the Chief Accountant should be supported by an accounting branch in the Financial Management Secretariat. The staff of this branch should be drawn from the Financial Policy Development and Evaluation Divisions of the present Financial Administration Branch within the present Office of the Comptroller General, and the Government of Canada Accounting Branch of the Department of Supply and Services, and should include personnel to carry out the recommended changes in systems of financial reporting and accounting.

Accounting and Payroll Systems The accounting policies appropriate to the Government of Canada as a whole are not necessarily suited to all the needs of individual departments and agencies. Departments need accurate and comprehensive cost data and systems for controlling non-financial assets and liabilities. The accounting and payroll information now provided to departments by the Department of Supply and Services is not suitable; it is neither timely nor sufficiently accurate. Departments have developed their own partial systems in an attempt to overcome these difficulties; not surprisingly, wasteful duplication has been the result. In Chapter 14, we recommend that departments design and use comprehensive cost-based accounting systems, operating them internally or having the work done for them. The information needed by central agencies for government-wide reporting would also be provided by each department. That chapter also suggests that certain departments prepare their own payrolls if the deficiencies of the central pay system cannot be overcome.

These are major, complex, and time-consuming tasks that will involve all departments and many agencies of government. The introduction of cost-based accounting systems will result in the divorce of departmental accounting information from the traditional source of cheque issue and, consequently, from the Consolidated Revenue Fund operations. The transfer of accounting systems design and maintenance from the Department of Supply and Services to departments and agencies involves a series of co-ordinated steps which must be carefully planned, controlled, and monitored so that there is no interruption in the production of

accounts or in the consistency of the financial information required by central agencies and individual departments. For example, departments will have to be rated according to their present and future ability to make these changes, and improvements necessary in departmental financial management will have to be identified and made before departments can implement changes. As well, the Chief Accountant will have to determine the nature, timing, and destination of financial information needed by central agencies, and departments will have to identify their own needs. The transfer would also require the identification of new or changed personnel and equipment needs.

Furthermore, a prerequisite for any departmental action to implement these recommendations is the establishment and approval of government-wide directives, standards, and guidelines for the design and maintenance of cost-based accounting systems. In addition, a central unit capable of examining and approving the various implementation proposals in the light of government-wide and departmental needs, costs, and benefits will be required. To meet these needs and to ensure the appropriate degree of central guidance and co-ordination in introducing new accounting systems, we recommend that

> **7.26 the accounting branch of the Financial Management Secretariat include an accounting systems division charged with planning, controlling, and monitoring the development, introduction, and maintenance of cost-based accounting systems in departments.**

We recognize that central responsibility for accounting systems would be enhanced by the support of the Operational Services Branch of the Department of Supply and Services, particularly during the transitional period. This branch is closely involved in the design, maintenance, and operation of existing departmental accounting and payroll systems. We believe, however, that the effectiveness of the Financial Management Secretariat would be hampered if it were to assume such extensive operational concerns. Instead, the accounting systems division should be staffed by only a nucleus of systems design and maintenance personnel drawn from the Operational Services Branch, which should remain in DSS. This would facilitate the establishment of the close working relationship between these two units necessary to the efficient implementation of our recommendations.

Financial Personnel and Organization Financial managers and personnel have too often been placed in positions of authority for which their training and experience have not prepared them. Conditions for entry to the public service, training and development programs, and career planning have not been adequate to ensure that excellent candidates were available for promotion to vacant positions. Most senior financial officers have not established performance goals, their performance has been inadequately appraised, and they have not obtained sufficient career guidance. Within departments, many senior financial officers are unable to make a full contribution to management because not all are members of management committees, nor do they report directly to deputy heads. Moreover, they are often unable to exercise satisfactory authority over financial staff employed in programs or in regional offices.

This aspect of financial personnel and organization is vital. Only if financial managers are well-trained and experienced will improved systems and procedures have any lasting value. The implementation of our recommendations relating to financial management and control have a significant bearing on the technical skills needed by senior financial officers in departments. As participants in departmental management, they will be expected to provide assistance in determining how program costs can best be accommodated within expenditure limits for periods of three years of more.

It is essential that an early start be made in establishing an inventory of the financial management skills and of the candidates for financial positions that will be required in the public service over the next ten years. From this inventory, the Comptroller General would be able to determine the number of people required now and in the future in the government financial community as well as the levels of education, qualifications, and experience that should be sought in future entrants to the financial stream of the public service. We recommend that

> **7.27 the Comptroller General determine the requirements of government for financial and accounting skills, and be responsible for the identification and development of the necessary people to meet these requirements.**

The Professional Development Division of the Financial Administration Branch should provide the support for improving

the level of technical skill and experience of financial officers in government. Through a close working relationship with the appropriate branch of the Personnel Management Secretariat, the Division should be able to give increased attention to career planning and other matters relating to financial organization and personnel in departments and agencies.

Internal Auditing An over-abundance of unco-ordinated audits unduly burdens departmental management. The scope of most of these audits is narrow, their standards and procedures are unsatisfactory, and follow-up is fragmented or inconclusive because findings are reported inconsistently and to inappropriate levels of management. Our recommendations to unify and otherwise improve the standards and scope of internal audit in departments are set out in Chapter 14. We propose that the Comptroller General provide guidance in the implementation of these recommendations. He should ensure the regular entry of competent internal auditors to the public service and should encourage professional development courses in auditing procedures. His main task, however, should be to ensure that the standards and scope of internal audit reach acceptable levels.

To do this, the Financial Management Secretariat should identify the purpose and scope of all central agency compliance audits and direct that they be consolidated and included in the comprehensive internal audit programs of departments. These should cover personnel management policies and procedures, official languages policy implementation, administrative and contract procedures, and financial management policies and procedures. In order to ensure a comprehensive compliance audit program, the Comptroller General would therefore need the support and agreement of the Secretary for Personnel Management.

The compliance and other audit program directives established by the Financial Management Secretariat should set out standards for such matters as the issues and activities to be examined, the frequency of examination, and the extent of the sampling permitted. They should also establish standards of performance management for the audit program itself. Once developed, departmental audit programs should be submitted to the Comptroller General for his approval, and the subsequent conduct of the work should also be open to scrutiny by him. We recommend that

7.28 the minimum scope and standards of internal auditing, including auditing for compliance with central agency directives and guidelines, be determined by the Comptroller General; and that

7.29 departmental internal audit programs and reports be submitted to the Comptroller General for his review, and that the Comptroller General also have the authority to evaluate the effectiveness of the internal audit work performed by departmental and agency audit staff.

We appreciate that it may not be economical for some of the smaller departments to employ their own audit staff. For departments where the need for audit staff exists, personnel resources should be transferred from the Audit Services Bureau of the Department of Supply and Services. The staff remaining in the Audit Services Bureau should then be transferred to the Financial Administration Branch under the direction of the Comptroller General to assist in the development and monitoring of audit standards, and to conduct periodic internal audit of smaller departments without an audit capacity. We recommend that

7.30 the Audit Services Bureau in the Department of Supply and Services be disbanded and its staff transferred to individual departments and to the Financial Management Secretariat; and that

7.31 the Financial Administration Branch in the Financial Management Secretariat be staffed to conduct internal audits of departments without an internal audit capability.

To assume these responsibilities, an operational audit division should be established in the Financial Management Secretariat. This division should continue the work of the Financial Administration Branch, co-operating with departments to develop annual work plans for improving financial management and control. The plans should be agreed upon by the deputy head and his senior financial officer, in consultation with the Comptroller General, following an annual review of the department's financial management performance. This review should be conducted by the senior officials of each of the branches under the Comptroller General's direction. Prior to the review, the Comptroller General's staff

should review the reports of the Auditor General and the internal auditors and departmental audit committee, the previous year's work plan, and the scope and standards of the internal audit program of the department. After a work plan has been agreed upon, the Comptroller General's staff should review progress, provide guidance where required, and assist in overcoming external constraints. We recommend that

> **7.32 the Comptroller General and his staff work with departments to assist them in the preparation of annual work plans for improving financial management and control, and that they monitor and assist in the satisfactory implementation of these plans.**

The implementation of our recommendations respecting the duties and responsibilities that the Comptroller General should fulfil on behalf of the Board of Management will further consolidate and clarify accountability for the central direction of management. The Board of Management would be able to ensure that departments make realistic program proposals and carry them out with economy, efficiency, and effectiveness. Parliament would receive clear, comprehensive, and consistent information on spending proposals and achievements. Moreover, the accountability of departments would be enhanced through the establishment of accounting and operational audit capabilities as well as the standards necessary to operate these systems smoothly and effectively.

The Review of Departmental Performance

Given its personnel and financial management responsibilities, the Board of Management must be able to assure Parliament and the public that sound management practices are in place and operating in government. The Board must, therefore, have procedures for ensuring that the managers of departments and agencies do pay attention to administration, that government-wide financial, personnel, and administrative policies are being consistently applied, and that those with responsibility for administration provide an account of departmental performance. In carrying out these responsibilities, the Board will be able to rely on the Secre-

tary for Personnel Management and the Comptroller General, who will be equipped to perform this role as a result of the organizational changes we have proposed. The information necessary to assess the performance of managers in all departments will be available to them as a product of their other duties. We believe that senior public servants—not ministers—should conduct this review, both because of the time required for it, and because the focus of this review should be on management performance and not on the appropriateness of policies.

A joint review by these two officials should provide the necessary counterbalance to increased delegation of authority to departments and should inject the discipline required to secure essential improvements in government management. This review process is vital. It must take place on a regular basis and in a formal way. Judgements must be made fairly and frankly. Furthermore, commitments must be given by the participants to remedy any weaknesses brought to light during the review.

The information that the Board of Management secretariats will need to review departmental performance can be garnered from a variety of sources. Departmental Strategic Plans, detailed Estimates submissions, and memoranda concerning key short-term goals, all of which are discussed in Chapter 11, should be submitted to the Board of Management after being reviewed by both secretariats. The secretariats would have worked with deputy heads to agree on plans to improve financial and personnel management, and would monitor, and where necessary assist, in the achievement of those plans. Details of departmental internal audit, discussed in Chapter 14, should be freely available for review by the Comptroller General who would also be responsible for ensuring the maintenance of internal audit standards and scope throughout government. The departmental program evaluations we recommend would provide an additional source of information, while independent sources, such as the Auditor General's reports, and reports from the Public Accounts Committee and other standing committees would also be available.

With this information to assist them, the Secretary for Personnel Management and the Comptroller General should develop an analysis and appreciation of departmental performance based on the responses to questions such as the following:

- Does the department have a planning process that ensures the development of short-term goals that support long-term plans to achieve major objectives corresponding to government priorities?
- Are the short-term plans realistically timed and the related expenditures realistically costed?
- Is program delivery being managed with due regard for economy, efficiency, effectiveness, and attainment of goals; are results being measured in terms of outputs and the costs associated with them; is the allocation of resources appropriate given the demands of the objectives?
- Is full consideration given to the financial implications of major decisions before these decisions are taken; does this consideration include proposals for systems and procedures to control expenditures?
- Are comprehensive internal audit and other audit reports and critiques promptly and thoroughly followed up; are improvements made where they are required?
- Do management, financial, and operational information systems provide accurate and relevant information when and where it is required?
- Is the department staffed with due regard for economy and efficiency in accordance with approved staff complements; do procedures ensure that personnel are thoughtfully appraised, promoted, or compensated according to merit; are sound training and development programs in place and being used; are measures taken to deal with unsatisfactory performers?
- Is departmental organization sufficiently flexible to reflect and respond well to changes in priorities and responsibilities?

Before meeting with each deputy head, the Comptroller General and the Secretary for Personnel Management should both sign a confidential memorandum setting out their analysis of performance, pointing out matters of particular interest or concern, and inviting the deputy head to consider these points prior to a formal meeting with them. With the agreement of the three participants, senior officials from the department and from the Board of Management secretariats should also be able to participate in the meeting. After this meeting, a formal assessment of departmental

performance should be drawn up jointly by the Comptroller General and the Secretary for Personnel Management. The report should cover major accomplishments, opportunities for improvement, and deficiencies in management. Action programs undertaken by the department and the Board of Management secretariats to make improvements or correct deficiencies should be highlighted in the report. Any significant disagreements among the participants should be specifically noted. The deputy minister should sign the report and should be free to add his own comments.

The report should be sent first to the minister responsible for the department so that he may be aware of performance and problems, and exercise his responsibilities in management. It should also be sent to the President of the Board of Management who bears a responsibility for the quality of management across government. The assessment of departmental performance is needed, not only to sharpen departmental operational planning, but also to assist in the performance appraisal of deputy heads. A copy of the review should thus be sent to the Privy Council Office. The Committee of Senior Officials on Executive Personnel should receive a copy of each review for consideration when deputy head performance is appraised.

The Board of Management should also review the departmental performance reports. While cognizant of the substantial time constraints faced by members of the Board, we believe it is necessary for ministers and deputy ministers to know that the administrative performance of their departments is subject to examination by the Board. Accordingly, the Board should make it a practice to conduct face-to-face reviews with ministers and their deputies. Each year these reviews should include both departments where major improvements are required, and those where administration is judged to be superior.

Based on the assessments of departmental performance, the President of the Board of Management should prepare a general assessment of management across government to be presented to Cabinet. This report should present an overview of actual accomplishments compared with plans and goals, and should describe necessary management improvements and the plan being developed by the Board of Management to carry them out.

The departmental performance assessment process will take time to develop. At present, comprehensive planning, reporting, and assessment are not possible; financial and management infor-

mation systems are insufficiently developed. Goal-setting is a relatively new activity in government management and the measurement of goal achievement is rare. Despite these problems, a start can be made immediately in conducting departmental assessments. We believe that this formal assessment will be welcomed by ministers and deputy heads. It will give them an independent and objective report on areas that require improvement and draw attention to strengths and weaknesses that must be considered in determining how objectives can best be achieved. The report would also provide a means of ensuring that the Prime Minister was aware of administrative requirements when recommending Governor in Council appointments. Equally important, it will result in the establishment of formal annual targets for improving management in government.

In summary, we recommend that

7.33 the Comptroller General and the Secretary for Personnel Management conduct an annual in-depth review of each department's management performance; and that

7.34 the assessment of departmental performance, prepared jointly by the Comptroller General and the Secretary for Personnel Management, be submitted to the responsible minister, the President of the Board of Management, the Privy Council Office, and the Committee of Senior Officials on Executive Personnel.

Cash Management

In completing this discussion of central responsibility for management, we turn to a review of the management of the government's cash funds. We reviewed the activities of the Government of Canada Accounting Branch—including the Consolidated Revenue Fund Operations—of the Department of Supply and Services. In doing so we found that, while the present organization permits the exercise of optimum control and reporting for cash transactions, there is no effective day-to-day management of the government's cash funds.

The purposes of cash management are twofold. The first is to ensure that a borrower stays well within the limits of the credit that lenders are prepared to extend to him. From the borrower's

point of view, the second purpose of cash management is to ensure that he pays as little interest on his debts as possible, while the lender will want to ensure that he earns the maximum possible interest on money lent. It is with the second purpose that we are particularly concerned. Its importance was not fully recognized in the private sector until late in the 1960s when interest rates reached high levels. Gradually, corporations and financial institutions developed systems of varying degrees of sophistication to ensure that cash did not lie idle, but was used swiftly, either to pay off debts incurring interest charges, or to generate supplementary revenues by investing in interest-bearing securities. The movement of cash between creditor and debtor was accelerated by electronic and other means. Corporations consolidated their banking operations so as to minimize the amount of idle funds, and appointed treasurers and cash managers to provide expert advice. Payments were consolidated to reduce the cost of transactions. Charges for the use of funds were calculated and considered in all but the most rudimentary business decisions relating to both capital expenditures and operating expenses.

Interest on the public debt in 1979-1980, as forecast in the November 1978 Budget, will amount to $8.3 billion, or 16% of total budgetary expenditures for that fiscal year. In these circumstances, we would have expected to find a sound and efficient system of cash management in government, a system designed to ensure that only the necessary interest charges on the public debt were incurred. We were sadly disappointed. The existing system is not worthy of the name cash management as it is understood today; however, we did observe some recent tentative steps toward improving this important part of financial management.

There is no effective cash management system because the way that government is organized and accounts are kept fails to hold accountable those responsible for incurring interest expense. In consequence, there is little, if any, awareness on the part of managers that the cost of borrowing money is a significant element in the total cost of their programs and activities. We believe that three changes must be made to create this awareness and establish effective cash management.

First, the management of the government's finances, including the operation of the Consolidated Revenue Fund, must be conducted wholly by the Minister of Finance. Second, the government's banking arrangements should be placed on a competitive

commercial basis. Third, accounting methods must be improved so that departmental costing systems give proper recognition to the cost of borrowing.

Responsibilities for cash management are now spread over four agencies, the Department of Finance, the Department of Supply and Services acting as agent for the Receiver General, the Treasury Board, and the Bank of Canada. Section 8 of the *Financial Administration Act*, however, entrusts to the Minister of Finance "the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other Minister." In consequence, the other three agencies act in a support or service capacity for the Department of Finance. The Treasury Board issues directives and guidelines concerning the stewardship of public funds, including receipts and disbursements made by departments and agencies. The Department of Supply and Services acts as cashier, opening bank accounts in the name of the Receiver General for Canada for the deposit of public funds, and taking responsibility for the collection and disbursement of those funds. The Bank of Canada acts as the government's banker. Two divisions in the Department of Finance, Capital Markets and Fiscal Policy, perform tasks related to cash management. The former handles the management of the public debt by determining the government's annual borrowing requirements; the latter forecasts the amount of tax and other revenues. The cash management responsibilities of departments are limited to depositing public funds and submitting requests for payment. Departments and agencies that receive money deposit it in government accounts held in many bank branches. These funds are later transferred to the Bank of Canada. All requisitions for cheques to pay salaries, or to purchase goods and services relating to departmental operations are made to the Receiver General.

The Auditor General has commented on the weaknesses in the systems for collecting and depositing funds and has made a number of thoughtful suggestions for improving cash management. In response to these suggestions, two studies have been initiated. The Department of Supply and Services is studying the possibility of a comprehensive system that would enable departments to exercise much greater control over the various government accounts in the commercial banking system and over daily transactions. The second study, undertaken in 1978 by the Treasury

Board Secretariat, is examining existing methods for depositing and transferring public funds and comparing these with electronic and other methods. Apart from these studies, and a reduction in the amount of funds in transit, no significant changes have been made in response to the Auditor General's criticisms, even though the weaknesses he reported result in substantial costs.

One of the most serious weaknesses in existing cash management is the absence of planning. Neither the Receiver General nor the Treasury Board Secretariat has any forecast of receipts and disbursements, nor any plans for maintaining minimum and maximum cash balances. The Department of Finance forecasts monthly receipts and major expenditures, and plans short, medium, and long-term borrowing in capital markets, but these are for the purpose of managing the public debt. The plan is based on the budgeted surplus or deficit and on debt maturity dates. The Bank of Canada also makes a monthly forecast for several years ahead, based on a series of hypotheses. Nowhere is there a daily, or even weekly, plan of receipts and disbursements that could be used to reduce idle funds and excess borrowing to a minimum. Rather, the total of these—the float—is determined daily by the Governor of the Bank of Canada in deciding what amount should be injected into, or withdrawn from, the Canadian banking system so as to exercise control over the total amount of money in circulation, and thus over short-term interest rates. The precise amount of the injection depends on the amount of government deposits and disbursements for which compensation is given to the banking system on that same day. All receipts, except those arising from the sale of treasury bills, savings bonds, and other government bond issues, are deposited in the commercial banking system, and the government accounts cannot, therefore, be credited until the appropriate transfer documents are presented to the Bank of Canada for compensation. Several days can elapse between when the banks receive government deposits and when they have to start paying interest on them.

The separation of macro-economic cash management conducted by the Department of Finance and day-to-day cash management, such as it is, should be terminated immediately. All policy authority and operational responsibilities for the receipt, deposit, and disbursement of funds, however small the amount, should be located in the Department of Finance. The Department of Finance would then have responsibility for deciding how to

move the government's funds as quickly as possible to the Bank of Canada, when and how liabilities should be met, and what balances should remain in the banking system. We recommend that

7.35 the authority and responsibility for the operations of the Consolidated Revenue Fund and all other aspects of day-to-day cash management be clearly vested in and fulfilled by the Department of Finance.

The existing arrangements respecting government deposits, the costs of which are immeasurable, are defended on the grounds that, by law, banks cannot levy charges for financial transactions processed on behalf of government. As compensation for providing these services, and under an agreement going back to 1957, the chartered banks do not pay interest on the first $100 million of public funds on deposit in government accounts. On the balance in excess of $100 million, interest is paid at 90% of the average interest rate of 90-day treasury bills sold in the calendar quarter in question. The daily balances to which this arrangement applies have ranged in the last two or three years from $1.5 to $5 billion. We were unable to establish the cost of carrying these excess balances or how accountability for incurring these costs is exacted. The absence of adequate accountability for cash management at this level does nothing to change poor attitudes at lower levels. There is little or no sense of the commercial value of money on the part of those who manage either programs or public funds.

If accountability is to be established, and if value for money is to become a working principle in government, a significant start could be made by establishing a sound and effective cash management system and a business-like arrangement between the government and the banks. We believe that the government should earn interest on all the funds it deposits in the banking system and that government should pay for all the banking services it receives on a competitive basis. We recommend that

7.36 all funds deposited in authorized depositories in the name of the Receiver General be credited immediately to the account of the Government of Canada, and that amounts in excess of minimum balances established by contract earn interest as from the following business day; that

7.37 charges for all banking services rendered in connection with transactions relating to the government be made on a fully competitive basis; and that

7.38 plans for daily minimum cash balances, receipts, and disbursements be made by the Bank of Canada in the light of information provided by the Department of Finance.

Putting relations between the government and the banking system on a commercial footing will permit the Department of Finance to explore and introduce improved methods of cash collection, deposit, and disbursement, an exercise that would be frustrating if attempted at present. Under existing arrangements, there is little or no competition among the banks for government business, other than where remuneration is provided, as in the sale of Canada Savings Bonds. This is in sharp contrast with the aggressive competition among the banks for the business of provincial governments and for commercial business. Even under existing arrangements, however, some cost-saving improvements could be made. We recomend that

7.39 subject to election by recipients, repetitive payments to individuals, such as those for salaries, pensions, and family allowances, be made by automatic transfer through the central clearing system to designated depositories, thus obviating the costs of cheque issue and distribution.

In addition to consolidating the role of the Department of Finance as manager of all government finances, the separation of Consolidated Revenue Fund Operations from the Government of Canada Accounting Branch will finally permit management accounting needs to be examined, and systems established to meet them, without the traditional concern for meeting cash accounting requirements related to the Consolidated Revenue Fund as well. This will allow the development of comprehensive and accurate costing information in departments and agencies, where it is urgently needed.

8

COMMON SERVICES

In our Progress Report we cited three questions concerning the availability of matériel and services throughout government. First, we asked if the provision of common services had been satisfactory. Second, we questioned whether the present arrangements for charging for common services had encouraged economy on the part of user departments. Finally, we asked if the organization of common services in a departmental form weakened or strengthened the management of and accountability for the provision of common services.

Our inquiry indicated that the present structure and functioning of the system for the planning and delivery of matériel and services have given rise to major concerns. There appears to be much uncertainty with respect to the interpretation of common service policy. There is doubt about the effectiveness of the common service organizations and concern about the efficiency of their operations. The central co-ordination of common service organizations has generated role and responsibility conflicts among the departments and agencies that provide common services and the departments they supply and serve. In addition, there are significant differences in the ways in which common services are administered, and there is confusion as to where the common service organizations should account.

Although the Treasury Board has provided both a formal policy manual and sets of guidelines for all concerned, there is no coherent agreement with respect to the interpretation of these statements. Departments, common service organizations, and central agencies all have different perceptions and assumptions about common service policy. As a result, officials in program depart-

ments and in common service organizations behave and make decisions according to assumptions and premises that they believe to be correct. The assumptions are not necessarily shared by others involved.

One view of common service roles and policy is that the common service organizations are arms of the Treasury Board, functioning as intermediaries between program departments and the Treasury Board on the one hand, and between program departments and sources of supply on the other. According to this view, program departments are responsible for defining requirements, the common service organization is responsible for contracting, and the purview of the common service organizations should not extend into the control of matters such as specifications, design criteria, or project management. This view also maintains that loading too many subsidiary objectives on the common service organization will undermine the basic requirement for probity and prudence.

A second and widely held view is that common service organizations, while primarily support vehicles for other programs, are also effective instruments to carry out other government policies and to provide visibility to the contracting process. In these latter roles the common service organizations are seen to be agents of the Treasury Board. They are not considered, however, to be responsible for policy and, according to this interpretation, only perform a service function within a framework of specific policies and regulations.

A third view is that the role of the common service organizations is simply to provide services to program departments. Their major concern should be to respond to departmental priorities and operational needs with due regard for economy, quality, and timeliness.

The different interpretations of the Treasury Board's common service policy make for an ill-defined framework for the management of matériel and services. These implicit and conflicting interpretations create a situation in which decision-making and choices concerning matériel and service are not guided by coherent premises that apply throughout government. For example, program department officials often perceive that the common service organizations, because of their monopoly position, assume a control function which effectively denies the program manager the authority to manage. Particular concern over the responsibilities of

common service organizations relates to the procurement of single purpose items which are unique to the requirements of specific departments.

Unproductive conflicts also emerge in the delivery phases of large projects. Blame is cast in all directions when project costs run over estimates, or when completion deadlines are not met. Efforts by common service organizations to expand the scope of their responsibilties are seen by departments as empire building and are strongly resisted. Conflicts also arise between common service organizations and departments that have retained common service construction units. Such conflicts blunt the benefits of common service, and do not contribute to greater efficiency and effectiveness in the management of matériel and services.

Steps have been taken in government in an attempt to relieve some of these difficulties. The Administrative Policy Branch of the Treasury Board has developed a common service policy and established guidelines. The Senior Interdepartmental Committee on Administrative Improvements is recommending to Treasury Board new policies and measures whereby the provision, management, and control of administrative activities can be improved. In addition, the Treasury Board Advisory Committee on Federal Land Management has been established to resolve conflicts and examine policies, guidelines, and procedures for the acquisition, management, and disposal of land.

Notwithstanding these efforts to overcome conflicts and problems, the major concerns remain. Our analysis here is based on a study of the questions posed in the Progress Report with respect to the major common service organizations that exist in government today. While some services common to all departments and agencies are excluded from this analysis, we believe that the recommendations provide a broad framework applicable to all common service organizations.

Implementation of almost all of the eighty recommendations of the Glassco Commission with respect to common services, and attempts to apply the guidelines that the Commission proposed, have led to a group of departments and agencies undertaking the provision of services to meet the needs of other government departments and agencies. Today, two large departments, the Department of Supply and Services and the Department of Public Works, are primarily responsible for the provision of matériel and services. Auxiliary services are still provided, however, by special-

ized units located in program departments. For example, telecommunications services are provided by the Government Telecommunications Agency, housed in the Department of Communications, and translation services are provided by the Bureau for Translations, ordinarily referred to as the Translation Bureau, located within the Department of the Secretary of State. As well, design and construction capabilities exist in several program departments, most notably in the Departments of Transport, National Defence, and Indian Affairs and Northern Development.

The five common service organizations upon which we have based our study and recommendations are briefly described here. These are the Department of Public Works, the Department of Supply and Services, the Government Telecommunications Agency, the Translation Bureau, and the Crown Assets Disposal Corporation.

Established at the time of Confederation, the *Department of Public Works* (DPW) has seen its responsibilities modified through time. The first consequence of the Glassco report of 1962 was the transfer, in 1964, of the responsibility for furniture procurement and supply from DPW to the Department of Defence Production. In 1966, DPW took on the responsibility for maintaining a central real property inventory. In 1971, it became responsible for expropriations for all government departments, agencies, and Crown corporations. In 1972 it was assigned the central responsibility for land management and in 1974 it was made the central point for the disposal of surplus lands and buildings.

DPW is the exclusive and mandatory provider of office space for the Government of Canada. All space is provided free of charge to departments. About 27 million of the 100 million square feet of office space provided by DPW in the year ended March 31, 1977 was leased from the private sector. Total expenditures of DPW were about $683 million in 1976-77, 80% for the provision of office space. Authorized man-years in the Department numbered 9,449 in 1976-77, up from 7,910 in 1971-72, and staff is highly dispersed.

DPW undertakes construction not only to provide accommodation to other departments but also to provide special purpose buildings for departments like the Post Office and the Solicitor General. During 1976-77, funds administered for capital projects on behalf of other departments were $202 million. All construction is funded by appropriation to DPW, and all work is contracted out

to the private sector. The consolidation of all construction activities into a single agency as recommended in the Glassco Report has not, however, been achieved. For instance, in 1976-77, total expenditures for construction and acquisition of land, buildings, and equipment for the Government of Canada were $712 million, and 59% of this amount was under the management of DPW. In 1970-71 the figure was 52%.

On April 1, 1969 an Act of Parliament created the *Department of Supply and Services* (DSS). The department has a dual organization involving two distinct divisions, the Supply Administration and the Services Administration.

Following the recommendations of the Glassco Commission, the Cabinet enlarged the role of the Department of Defence Production by designating this department as the central purchasing agency of the federal government. It was thereby given the responsibility for providing goods and services to both civilian and military departments. As a result, the Printing Bureau was detached from the Department of Public Printing and Stationery and brought under the Department of Defence Production in 1963. The authority to supply furniture was transferred from the Department of Public Works to Defence Production in 1964, and the authority to provide office supplies was transferred from Public Printing and Stationery in 1965. These changes in the role of Defence Production, and the hiving off from that department of its industrial development responsibilities in 1966, led to a major reorganization of the department.

The *Supply Administration* of DSS succeeded the Department of Defence Production as the organization with the mandate to provide purchasing and matériel management services to departments and agencies with the sole exception of the management of "matériel essential for the conduct of military missions." Under the authority of the *Defence Production Act*, however, the Supply Administration does perform acquisition functions relating to the procurement of military equipment.

The Supply Administration of the Department of Supply and Services provides the following services to all departments and agencies of the government: acquisition of goods and services of a scientific, engineering, and commercial nature; printing and publishing; maintenance and repair; traffic control; security; exposition; and warehousing and distribution. Services are provided by the Supply Administration on a total cost recovery basis or, as it is

now termed, revenue dependency. Departments and agencies pay both for matériel received and for the services rendered by the Supply Administration. In the fiscal year ended March 31, 1977, the Supply Program had 4,719 authorized man-years and actual expenditures of $2.96 million, and through 281,000 contracts, it procured goods and services worth $2.872 billion. The consolidation of purchases is evidenced by the fact that close to the same number of contracts, 270,000, worth $1.065 billion, more than $1.5 billion less than in 1976-77, were centrally processed in 1971-72.

The *Services Administration* of DSS was formed by the amalgamation of three existing units lodged elsewhere in the public service: the Office of the Comptroller of the Treasury from the Department of Finance, the Central Data Processing Bureau, established first in the Treasury Board Secretariat and transferred in 1968 to the Department of Defence Production, and the Bureau of Management Consulting Services from the Public Service Commission.

The authority and functions of the Services Administration are governed by two statutes, the *Department of Supply and Services Act*, which states that the minister is the Receiver General of Canada, and the *Financial Administration Act*. The latter statute entrusts responsibility for accounting, budgeting, and financial control to deputy heads of departments and agencies but makes the Services Administration responsible for central accounting and the operation of the Consolidated Revenue Fund. The Services Administration offers optional advisory and management services to departments and agencies on a partial cost recovery basis. These management services include audits, accounting, computing, and management consulting.

Total expenditures of the Services Administration for the year ended March 31, 1977 were $111 million. Authorized man-years were 5,213. Appropriations account for nearly two-thirds of the Services Administration budget. To carry out statutory functions, the Administration operates a computer network, 15 offices in the national capital region, and 23 offices across the country. It issues approximately 120 million cheques annually.

Established in 1966 to plan and co-ordinate administrative telecommunications facilities and services used by the federal government, the *Government Telecommunications Agency* (GTA) is housed in the Department of Communications. Telecommunica-

tions services include the transmission of voice messages, images, and computer data. Its creation was recommended by the Glassco Commission in order to reap the benefits of economies of scale. In 1976-77 GTA had 229 authorized man-years and spent approximately $33 million for services purchased from telecommunications companies and for administrative expenses.

The Agency does not have an exclusive mandate for the provision of telecommunications services within the public service. It is responsible only for the management of "shared" and "customized" systems and for consolidated service centres representing 25% of total telecommunications operational expenditures. GTA manages consolidated telephone systems in 19 cities coast-to-coast using 650,000 miles of intercity circuits leased from the private sector. Growth in shared and customized services managed by GTA has been greater than growth of departmentally managed services. GTA operates by recovering its direct and overhead costs from its clients according to their statistically estimated shares of the total "shared" volume generated by the whole of government. Departments, however, pay telephone companies directly for all services that are not shared.

The "*Bureau for Translations*" was established in 1934 through the consolidation of translation units in different departments of the public service. It is now housed within the Department of the Secretary of State. It has an exlusive mandate for the provision of translation, interpretation, and terminological services within the Government of Canada, ranging from the proceedings of both Houses of Parliament to all the departments and agencies of the public service.

Translation and terminological services are provided free of charge. The Translation Bureau is funded by appropriations voted by Parliament. Direct travelling and lodging expenditures are, however, recovered by charges to departments and agencies. Approximately 87% of the work is done by the Bureau's own staff. During 1976-77 the Translation Bureau had expenditures of $39 million and about 2,000 full-time employees, 800 at headquarters, and the rest working in departments and agencies. During the same year, the Bureau translated 242 million words and provided 12,500 interpreter days. By comparison, in 1967-68 it employed 448 full-time personnel, translated 95 million words, and provided 2,300 interpreter days. The impact of Government policy with respect to official languages accounts for this great increase.

Though it provides services to over 150 departments and agencies the Bureau's major customers are, by volume, Parliament, the Departments of National Defence, Industry, Trade and Commerce, Environment, External Affairs, and National Health and Welfare, Statistics Canada, and the Department of Transport.

The *Crown Assets Disposal Corporation* was established in December 1949 by the *Surplus Crown Assets Act* to replace the War Assets Corporation which had been created in 1944. The Corporation, with a board made up of public servants and persons from outside the public service, falls under the responsibility of the Minister of Supply and Services. It is charged by statute with disposal of the surplus assets of departments, agencies, and Crown corporations with the exception, since December 1974, of the disposal of surplus lands and buildings, responsibility for which, with the associated personnel, was transferred to the Department of Public Works.

The Corporation also acts as agent for the United States, British, and other governments in the sale of their surplus assets located in Canada. The Corporation employs about 60 people and has annual sales varying between $10 and $15 million, depending on the stock of used aircraft, ships, vehicles, and sundry merchandise. The Corporation is financed by levying a commission on all sales. The scale of commission fees is determined by the Corporation's board of directors. According to a 1977 Treasury Board directive that is being implemented now, the remaining proceeds, after deduction of the commission, are returned to the departments that have declared the matériel surplus. This is an incentive that good managers should not require and one that we do not endorse.

Because of the political and economic impact of supply and real property decisions, departmental discretion as to the level and methods of procurement is regulated by administrative policy decisions taken directly by the Cabinet or by central agencies such as the Treasury Board. Through administrative policies and directives concerning the procurement, use, and disposal of goods, services, and real property, the Treasury Board aims at ensuring that departments achieve their program objectives within reasonable standards of economy and effectiveness.

Departments, then, are constrained in the way financial resources are used to acquire matériel and services. By virtue of the discretionary powers delegated to them, operating departments may specify, according to standards and guidelines, the character-

istics and the amounts of matériel and services they require; however, in most cases, they are obliged to channel their supply requisitions to the common service organizations to which purchasing and contracting powers have been entrusted.

Under existing policy and within the present system, common service organizations respond to program departments, which have the responsibility to define their needs and outline specifications. The contracting phase is the responsibility of the common service organizations, but client departments are consulted on significant issues during tender evaluation or contract negotiation to ensure that specifications as to time, cost, and quality are met. During the contract administration phase, the common service organizations are responsible for monitoring contract execution. The decision to accept the goods or services tendered is the responsibility of the client department. In their capacity as contracting authorities, however, the common service organizations decide, on behalf of government, whether suppliers have fulfilled requirements in accordance with the terms of the contract.

More succinctly, then, the client departments or agencies are responsible for determining *what* they want, *where*, and *when*. *How* these needs are met is the responsibility of the common service organization. This responsibility is reinforced by the expanded contracting limits that have been delegated by Treasury Board to the Department of Public Works and the Department of Supply and Services as compared with other departments.

Common service organizations relieve Treasury Board of a lot of detail by virtue of the fact that they have been given higher limits than other departments on the contracts that they may enter into without Treasury Board approval. This extension of contracting limits is justified in the view of the Treasury Board because the common service organizations exercise this authority according to Treasury Board policy directives.

Clarifying the Role of Common Service Organizations

There is confusion with respect to the roles and responsibilities of common service organizations and program departments concerning the provision of matériel and services. Because of their

accountability for program performance, program departments are responsible for the definition of requirements for the planning of real property needs. Common service organizations must be accountable for ensuring value for money and for achieving the maximum level of efficiency in the use of manpower and financial resources allocated to them. Thus, responsibility in the procurement process must be shared.

While, for general purpose items, program departments need only control the level and quality of matériel and services required and need not get involved in the actual procurement, they must be intimately involved in the procurement of items which are critical to their missions. Construction of airports or purchase of military equipment serve well as examples of critical procurement.

While the common service organizations must act on behalf of central management agencies to ensure probity and prudence, they are not themselves central management agencies. Common service organizations must refrain from assuming a control function with respect to departments' compliance with administrative policies and standards of central management. Ensuring compliance by program departments is a central management responsibility. The accountability of program managers requires that they conform to administrative practices and standards issued by central management; in like fashion, common service organizations must abide by the same administrative policies and standards that apply to all departments.

Common service organizations should perform a service role and be efficient in their responses to the needs of program departments. They should not be active policy-makers on the means to use procurement or real property to attain goals. These responsibilities belong to central management. In summary, we endorse arrangements with respect to common services whereby

- responsibility for common service policy across government is vested in the Board of Management
- program departments are responsible for the definition of their requirements for matériel and services, in keeping with standards and norms set down by the Board of Management
- common service organizations have exclusive authority for the selection of procurement methods and the calling of contracts according to policies laid down by the Board of Management

- common service organizations are treated like any other department (in accordance with the recommendations that we have made for all government departments)

Nevertheless, while this policy exists, we urge that several major problems with regard to the interpretation, acceptance, and implementation of policy be settled. The primary function of the common service organization is to act as an intermediary between program departments and the central management agencies on the one hand, and supply sources on the other. In this function four inter-related roles are performed. These must be accepted and respected by all departments, agencies, and organizations.

First, the common service organizations furnish goods and services throughout government and meet specified departmental requirements for matériel and services. Second, they provide advice and guidance concerning administrative standards to the central agencies. Third, the common service organizations select procurement methods and enter into contracts with the private sector on behalf of the government when such options are expected to lead to a more efficient use of resources. This frequently leads to decisions as to whether to "make or buy". Fourth, purchases of matériel and services by common service organizations for the conduct of government business are used, at times, to help meet broader government objectives.

The achievement of the highest possible degrees of probity, prudence, and integrity, and of the greatest value for money, must stand as the basic objectives of all common service activities. Other related benefits from the easy availability of expertise, specialization, or economies of scale must support these objectives and remain consistent with them. These objectives justify the legislative mandates of common service organizations for exclusive procurement within government.

Probity and prudence require that the government, in obtaining matériel and services from the private sector or from within government, ensure equal opportunity, due process, and fairness to actual and potential suppliers. Moreover, the methods by which decisions are made must ensure not only fairness but the appearance of fairness. Openness must characterize the process. Firms and individuals wishing to supply the government must be made aware of the possibilities that exist and of the criteria used to assess bids and award contracts.

Given these basic objectives, it is important to recognize that Government may wish to use the process of procurement to help to achieve social, economic, and environmental objectives such as increased employment, regional development, and national standards. The pursuit of these Government objectives may involve higher costs than would be dictated by strict adherence to economic and efficient procurement procedures. The decision by Government to house a given department in a prestige building or to construct a special purpose complex in a given region may be valid; however, it is necessary that the extra costs incurred through meeting these special objectives be explicitly identified, visible and approved by the Board of Management. Such approval by the Board of Management should be accompanied by explicit direction to the common service organization to proceed. The Board of Management should also be required to indicate clearly the special purposes to be served and the additional costs that result. In so doing, the Government must state its reasons and accept the responsibility for the increased costs which the implementation of the policy might demand.

Funding the Common Service Organizations

We believe that clear mandates for the common service organizations and specific and explicit policies and objectives respecting the services they provide will result in much needed clarification of the roles and responsibilities both of the common service organizations and the clients they serve with respect to procurement and delivery of goods and services. To further encourage efficiency and to strengthen management and accountability we propose a funding method for common service organizations based on a system of revenue dependency. A revenue dependent organization must fully cost its operations, including all direct, indirect, and overhead expenses, and recover these costs from its clients through fees and charges for services rendered and goods procured. Recovery of capital costs over the useful life of major investments would be expected as well. Such a system of revenue dependency for common service organizations would force all departments, agencies, and common service organizations to

emphasize value for money in the use of matériel and services. We recommend that

8.1 common service organizations be funded through a system of revenue dependency on a full-cost basis.

We are not the first to advocate that such a system of funding be adopted for common service organizations. The Glassco Commission recommended that departments and agencies be charged for the acquisition and delivery of services and matériel. In 1964, the Public Accounts Committee endorsed a recommendation of the Auditor General that interdepartmental billing for services rendered be introduced. In his 1966 Annual Report, the Auditor General recommended that clear information concerning the actual financial results of departmental trading and servicing activities should be provided to Parliament. At the same time, he recommended that charges be levied for the value of services provided, up to then without charge, by other departments. In 1970, the Public Accounts Committee recommended that accommodation, repair, and damage costs be made a charge to each department's appropriations rather than a charge to the Department of Public Works. Again, in 1975, the Public Accounts Committee recommended that rental costs be charged to departments and recovered from them, so that the departments would be more careful in their planning.

The Standing Senate Committee on National Finance, which studied in depth the accommodation program of the Department of Public Works, recommended, in September 1978, that that program be made revenue dependent. The 1978 Annual Report of the Auditor General supported the Senate Committee's recommendations but went a step further. The Senate Committee recommended the establishment of a Department of Public Works Building Fund through which the cost of capital assets would be repayed to the Consolidated Revenue Fund and operating expenses met. The Auditor General proposed that capital and operating expenditures be financed through two separate revolving funds, the Buildings Operations Revolving Fund and the Accommodation Management and Professional Services Revolving Fund. We endorse the proposals of the Senate Committee and believe that they present a sound approach to establishing appropriate charges for accommodation and related services as well as incorporating

commercial financial and accounting practices, but we feel that the Auditor General's proposal to separate the operating account from the capital account is sound and warrants full consideration.

Notwithstanding the recommendations and urgings of the Public Accounts Committee, the Auditor General, and the Glassco Commission, only the Supply Administration of the Department of Supply and Services is operating today on a fully revenue dependent basis. Although most of the common service organizations do make use of some form of charging for some services rendered, the arrangements are grossly inadequate. In some cases, such as the Services side of Supply and Services, charges are made, but full costs are not recovered and subsidies are required in the form of appropriations. In other cases, no charge is made for services and it is therefore impossible to determine exactly what the cost of a given program using these "free" common services may be.

Fees charged for services and fees charged for procurement differ to some extent. In the service situation, the fee structure can cover full costs, while the fee for cost of procurement is based on a percentage of the total costs. In the latter situation, it is necessary for both client and common service organization to know the cost of the item itself *and* the fee charged for actual procurement.

In the present arrangements, the user of common services does not have a sufficient sense of cost or control. The client has no vested interest in obtaining value for money, and, with the common service organizations being subsidized through appropriations, there is no great incentive for them to improve their internal or external efficiency. A system where the client would pay for services rendered and goods received would provide incentive to both clients and common service organizations by insisting that each department, agency, and organization plan its expenditures, account for its spending, and pursue economy and efficiency in operations. In addition to understanding and accepting the roles and responsibilities of the common service organizations, the departments and the organizations must know the full costs involved in the planning and provision of matériel and services.

The goods and services that are now provided by common service organizations are identifiable and divisible "items" which can be priced. The Department of Public Works offers, among others, engineering, construction, project management, brokerage, and building maintenance services. All of these can be unit-priced.

A translator can charge a client at a per-word, per-page, or per-hour rate agreed upon before the work is begun. Management consulting and computer expertise, offered by the Services Administration of the Department of Supply and Services, are amenable to unit pricing, as are the services rendered by the Government Telecommunications Agency. We recommend that

> **8.2 all common service organizations offer their goods and services at rates based on a full-cost approach, and that all goods and services provided by common service organizations be unit-priced.**

A full cost, unit-pricing approach would ensure that departments and common service organizations were aware of the direct cost of a given good or service and, in addition, all would be aware of the indirect costs of the management and control systems that would prevail. Pressure would be applied from all sources to control indirect costs. We believe that a full-cost, user-pay approach to the provision of matériel and services will enhance efficiency in departments and in common service organizations. To achieve total revenue dependency for common services, however, the organizations must not only offer goods and services, they must sell them to departments and agencies of government at a just price and departments and agencies must be provided with the means of paying for the services and goods.

Requiring that departments pay common service organizations directly for goods and services implies that an interdepartmental billing system will be necessary. We recognize that arguments against interdepartmental billing stress that there are additional costs involved, and that the same purposes can be accomplished by displaying the financial information needed through the use of "shadow pricing" or notational displays. The excess cost argument does not hold. Any normal, sound, full costing system should provide billing information as a basic output. Furthermore, transactions must represent real charges and valid expenditures by departments to encourage concern about the value that departments receive for their money. An army of bookkeepers would not be necessary; the personnel required for keeping track of such a system are in departments and agencies now.

The basic argument in favour of an interdepartmental billing system is that it provides the most realistic way of transmitting financial information on a transaction basis to managers in client departments. Moreover, it ensures that managers will pay attention to the cost involved by placing before them the financial consequences of the decisions related to common services that they have made. In turn, pressure is applied on the common service organizations for stringent and precise standards in their cost accounting system. To be effective, full cost information must be available on a transaction basis. Therefore, the cost of establishing an interdepartmental billing system would be incurred in any event. The advantage of an interdepartmental billing system over a shadow pricing or notational system is that it offers better assurances that the cost of matériel and services can be made absolutely visible to managers and can be basic information that they use to manage their activities. Pressure is applied to the common service organizations to maintain an accounting system that is both precise and operational. In summary, we recommend that

8.3 funds for common services, including annual rental costs for accommodation, be provided in the Estimates of the user departments, and that all transactions between common service organizations and client departments be actual transactions.

Setting and Reviewing Rates We have suggested that common service organizations charge departments and agencies for the goods and services that they provide, taking into account the full cost of rendering those services and supplying those goods. While full costing and meaningful transactions are necessary ingredients for a revenue dependent organization, one more component is required to complete the system. Rates and fees must be set for the provision of services and matériel.

The present method whereby common service organizations recommend their rates to Treasury Board for its approval is cursory and routine. The process is not viewed as a mechanism for achieving greater efficiencies or economies in the common service organizations or in the departments and agencies they serve. In the few areas where rates are set, attention is paid to rates only to the extent that they provide sufficient revenue to cover a budget which is approved. Program departments do not participate in the process and well-prepared challenges to proposed common service rates are

not made by the staff of Treasury Board. Where revenue dependency has been adopted to date, it falls short of its potential as a driving force for efficient management because a sound rate review process does not exist.

Formal procedures should be established through which the Comptroller General holds annual hearings, and the fee structures of the common service organizations are reviewed and, should the need be identified, revised. These hearings should be open to all client departments and agencies as well as interested private sector groups. Common service organizations should make submissions of proposed fee schedules in advance and these should be open to challenge by all the participants, including the staff of the Board of Management. Once the hearings have been held, the fee structure should be set on the basis of the recommendation of the Comptroller General and with the approval of the Board of Management. We recommend that

> **8.4 the Comptroller General annually conduct public hearings with respect to the fees charged by common service organizations with the full participation of common service organizations, program departments and agencies, and interested private sector groups, and that, on the basis of these hearings, the common service fee structures be recommended to the Board of Management for approval and communication to all departments and agencies.**

Through these hearings, the Comptroller General and his staff would be serving in the capacity of a "rate review board" and, through the process of conducting hearings concerning common service issues, they would be in a position to carry out a full range of related responsibilities with respect to costing principles in the common service area, the identification of role disputes within the existing machinery of government, and the co-ordination of recommendations to the Board of Management concerning the use of common services and resources to promote other Government objectives. The rate review hearings would provide departments and agencies with an opportunity to call all common service organizations to account for the fees that they charge, the timeliness of their delivery systems, and the quality of the goods and services provided.

Changes in the Organization of Common Services

Establishing a clear common service role and full revenue dependency will go a long way towards creating an environment conducive to improved management and accountability in the provision of common services in government. We believe that ensuring a consistent common service policy and capturing maximum economy and efficiency require that the common service organizations be treated as departments with specific tasks to perform. In this respect, visibility and a fully costed approach are of great importance. The Department of Public Works, the Department of Supply and Services and the consulting and computer services within DSS are readily visible at the present time. The Translation Bureau and the Government Telecommunications Agency, however, are not as visible. Each is currently housed within a large department and, although each performs a distinct service, accountability is not clearly defined. The orientation of the GTA is to contracting with telecommunications companies and is not in providing the Department of Communications with operational or policy advice. The Translation Bureau provides a specialized service which relates in only a secondary fashion to the responsibilities of the Secretary of State. Both of these common service functions would benefit from being part of an organization subject to a full cost, revenue dependency régime. We recommend, therefore, that

> **8.5 the Bureau for Translations and the Government Telecommunications Agency be transferred to the Department of Supply and Services under the direction and control of the Minister of Supply and Services.**

Our recommendation concerning the removal from the Services Administration of the functions of accounting, auditing, and cash management would facilitate the transfer of the Translation Bureau and the Government Telecommunications Agency. The Services Administration would thus be composed of organizations offering services in translation, telecommunications, management consulting, and computer advice and expertise. Such a proposal brings together under one minister a group of common service organizations whose functions are important to government and whose services can be fully costed and unit-priced. All should be

able to compete effectively with similar services offered outside government.

The Department of Supply and Services is currently administered by two deputy heads, one for the Supply Administration and one for the Services Administration. If the proposed transfer of functions to and from DSS occurs, the existing split between supply and services would no longer be necessary. All the services should be provided under the management of one deputy. In this way, the existing experience with full costing and revenue dependency could be applied across the Department. Such an arrangement should provide for greater co-ordination of the Department and the achievement of some new economies. Moreover, because DSS operations lend themselves to sound financial information systems, delegation, and, as a result, accountability, one deputy should be in charge of departmental management and organization. We recommend, therefore, that

8.6 all the functions of the Department of Supply and Services be brought together under one deputy minister.

We believe that Crown Assets Disposal Corporation does not require an arm's length relationship from Government because it is basically an integral part of the common service structure. It should function under the common services policies applicable to the other organizations, and be subject to the management and accountability régime that we have prescribed for all departments. Consequently, we have categorized the CADC as an *Other Designated Department*. We recommend that

8.7 the Crown Assets Disposal Corporation continue to be responsible to the Minister of Supply and Services, be governed by the common service policies of the Board of Management, and subject to the proposed management and accountability régime recommended for all departments.

Design and Construction Capabilities within Departments The design and construction capabilities in the Department of National Defence, the Department of Transport, and the Department of Indian Affairs and Northern Development are of a common service nature; however, they do not now operate in accordance with the policies we are recommending for common service organizations. We recognize that the unique needs of the program departments concerned and the design and construction specializa-

tion involved in meeting these needs are strong reasons for maintaining these capabilities within the departments. Still, we cannot accept that the present arrangements are conducive to efficient management or accountability. We believe that all activities in the field of design and construction now housed within departments should be set apart as distinct units, severed from their client departments. These units should bear the full costs of their operations and be funded on a fully revenue dependent basis. To clarify their specialized roles within their departments we think that these units should be organized in the same fashion as we have recommended for the Crown Assets Disposal Corporation and categorized as *Other Designated Departments,* our Category I-B. These organizations would require no addition or duplication of staff, and should be accountable through the same régime as we recommend for all government departments. In summary, we recommend that

> **8.8 the branches within the Departments of National Defence, Transport, and Indian Affairs and Northern Development which provide design and construction capabilities be specifically and separately identified and organized as *Other Designated Departments,* and made revenue dependent on a full-cost basis.**

Setting apart these branches within departments and constituting them as fully revenue dependent organizations will also allow for a greater capacity on the part of the Comptroller General to compare costs across government with respect to design and construction. Healthy competition would develop among the new *Other Designated Departments* themselves and the Department of Public Works in that costs would be visible for purposes of comparison and positive pressure would be applied to each organization to keep costs down and delivery of goods and services timely. None of the organizations should be permitted to operate in a "cost sanctuary". The application of fully costed revenue dependency would preclude this undesirable situation.

Management of Large Projects

The final question which must be considered in dealing with the common service organizations in government, and one which

we have examined closely, is the management of large projects. The Treasury Board published in June 1978 a document entitled, "Treasury Board Policy and Guidelines on the Management of Major Crown Projects". These guidelines are detailed and comprehensive and state clearly the Government's policy with respect to major Crown projects and the methods and systems to be followed in their planning, management, and delivery. Our conclusion is that the Treasury Board position is sound. Departments, agencies, and common service organizations should be made fully aware of the contents of this document, accept them, implement them, and recognize that they still retain their responsibilities and accountability with respect to large project management.

At the beginning of this chapter we indicated the questions that we pursued with respect to the provision of matériel and services to government departments and agencies. Our study has indicated that, to a degree, the experience with the provision of common services has been satisfactory, although there is surely room for improvement. We found that the present arrangements for charging for common services does not go far enough in encouraging economy on the part of user departments, and we have made recommendations that should alleviate this situation. Finally, we believe that the organization of common services in a departmental form has the potential for strengthening management of, and accountability for, the provision of common services. Implementation of the recommendations in this chapter, and those in Part III of this Report, will clarify roles and responsibilities and provide a sound accountability régime for common service organizations and the departments and agencies which they serve.

PART III

DEPARTMENTS

9

RESPONSIBILITY AND ACCOUNTABILITY FOR DEPARTMENTAL MANAGEMENT

This part of the Report builds on the changes recommended for the central management framework by setting out our conclusions and recommendations for corresponding changes required at the departmental level. We reject the idea put to us by some that the realignment of responsibilities and re-ordering of systems that we are recommending are already in place. The concepts may have been proposed, but too often, words have not been followed up by the actions which would have ensured the desired effects. Furthermore, changes have often been made on a piecemeal basis. One of our primary purposes, therefore, is to bring roles and processes together in such a way that compatibility is achieved and responsibility is focussed. While central management should provide impetus and direction, departments and agencies must be the focus for management in government.

Departments are the principal delivery arm of government; through them, the Government manages its programs and delivers its services. They are instruments under the direction and management of ministers and through which ministers discharge mandates conferred on them by Parliament in departmental acts. Each departmental statute sets out a minister's area of jurisdiction and prescribes his responsibility for direction and management. Departments are thus distinguished from any other type of governmental body by the fact that each is legally under the direct control of a responsible minister.

Departments differ considerably in function and organizational form. Organizations may vary from the classical department such as Agriculture, or External Affairs, to the ministry format of the Solicitor General's department, to departmental agencies like

the Canadian International Development Agency, to departmental corporations such as Canadian Arsenals Limited. Departmental functions cover the range from policy development and co-ordination to program delivery. The Department of National Revenue, for example, is an operational department, while the Department of Finance is primarily concerned with policy, and the Ministry of State for Science and Technology with policy co-ordination. Others, such as the Department of Transport, combine policy and operational functions.

In Part I of this Report we described the numerous activities in which government is engaged, the variety of forms in which it is organized, and the implications of such organization. Crown agencies, for example, have purposely been situated at arm's length from ministers in terms of direction or management or both. Departments, on the other hand, are meant to be highly responsive to the direction of ministers. Too often, however, departments have been provided policy direction without being appropriately monitored to see how they are being managed. Too often, the priorities, concerns, and skills of ministers—and, by extension, deputy heads—are directed toward policy and not administration or operations.

Ministers are normally selected to head departments for reasons other than their managerial skills. Their attitudes toward their portfolios understandably will be influenced by partisan considerations. Moreover, long tenure cannot be guaranteed. Elections occur at fairly frequent intervals and changes in the Cabinet line-up, even during the life of a parliament, are not uncommon. The nature of the political leadership that results has two important consequences for departmental administration. The first is the inevitable tendency of ministers to focus on policy matters and other issues of immediate importance to them. Management concerns tend to receive proportionately less attention unless particular problems of an administrative nature arise and require an immediate solution. The second consequence of the impermanence of ministers is the requirement for a permanent career public service whose leadership in each department is vested in a deputy minister. Deputy ministers are the link between the permanent public service and its transient political leadership. They represent two aspects of the conduct of public business, the need for continuity in its operations and the inevitability of change in its leadership. Deputy ministers are both the confidential advisers of

ministers and the chief administrative officers of departments. Seeking or achieving the appropriate balance between these roles is the essence of their job.

The conditions under which departmental and government business are conducted strongly influence deputy ministers' perceptions of what is required of them and hence their view of the relative importance of their administrative and policy advisory roles. To describe the environment in which deputy ministers and other public servants have recently worked, one witness appearing before us drew an analogy with the marketplace. A deputy faces stiff competition for the minister's time and attention, not in the area of departmental administration, but in policy advice. For policy advice the minister can turn to a variety of sources, while for advice on administrative matters the deputy's position is far less likely to be challenged. Consequently, the deputy has tended to devote more time to policy in order to maintain his competitive position with the minister.

Other factors have influenced perceptions of the relative importance of policy and administrative concerns and consequently the attention paid to each. The assumption that resources would be perpetually abundant led to placing a premium on creativity and ingenuity in policy development rather than on financial and administrative skills. There has been a commonly shared perception that the road to career advancement is in the policy advisory field. Indeed, many deputy ministers still believe that policy skills are valued more highly than administrative skills and that administrative ability is not given sufficient consideration in making deputy minister appointments (See Appendix B, "Deputy Head Questionnaire"). Furthermore, in responding to our Questionnaire, though deputy heads did choose a balanced set of management and policy responsibilities, including "assuring economy and efficiency in operations" and "managing my executive team", more deputies ranked "supporting my minister" and "ensuring that my department is responsive to the policy thrusts of the government" as their first or second most important responsibilities. Management responsibilities tended to be ranked third or lower. Deputies generally agreed about their five most important responsibilities, but disagreed about the relative importance of each. This suggests that each deputy's view of his role is strongly influenced by his particular circumstances and the concerns of his minister. In most cases these concerns are related to policy rather

than to administration. That a deputy's concerns should reflect those of his minister is not surprising in view of the deputy's accountability to him, but it also tends to reinforce the view, expressed to us on many occasions, that there are no rewards for good management. The corollary is that in the past there seldom have been sanctions against bad management either.

The importance of policy in government does nothing to detract from the need for sound management. Good administration is, in fact, essential to policy development because it provides the foundation for the allocation and efficient use of the resources required to implement policy. Careful planning and administration become even more necessary to the success of policy initiatives when those resources are in short supply. Good management in departments, therefore, is essential.

The present quality of management in government falls short of acceptable standards. We have discussed the preoccupation with policy and the resulting lack of emphasis on management. We are also aware that the pre-eminence of policy concerns can be used as an excuse for not managing or as a disguise for poor administration. Nevertheless, the Government's policy responsibility will remain and, in an environment of limited resources, will become even more challenging because difficult choices will have to be made. At the same time, the interdependence of policy and management should become more understood; each should be expected to support the other.

Departmental management has fallen short of acceptable standards because the pressure necessary to produce sound management of resources at all levels has not been applied. The resulting vacuum, when it has been recognized, has been filled through the actions of central agencies. While we have criticized the mounting numbers of central agency directives and controls, we recognize that many of these have been necessary measures that appear to be in the best interests of departments. Improved accounting standards, performance measures, program evaluation, and even controls over such seemingly minor things as taxi use and travel are all basic components of a departmental management system. Senior departmental managers should provide the leadership and pressure for improvements in these areas, but when they do not, it is understandable that central agencies have had to intrude on the management prerogatives of departmental administrators.

There is a lack of understanding of the full role of management in government. Management responsibilities are not well defined nor clearly delineated in the administrative structure. Thus, control and accountability relationships are obscured.

Our extensive investigations into the problems of departmental management have led us to the conclusion that policy development and program implementation in departments must be complementary. Deputy heads must be actively involved in the administration and operation of their departments if they are to be effective in offering policy advice and in developing programs that can be designed and carried out with value for money in mind.

The findings we present in this chapter are based on meetings with all the deputy ministers of departments, and the heads of many of the agencies designated as departments; a review of written submissions from many of the deputies and from the central agencies; the analysis of the responses to the detailed and comprehensive Questionnaire which was completed by the 27 deputy heads to whom we sent it; a study of how ten deputy ministers use their time; and, discussions of management matters with officials of central agencies, a number of ministers, and members of opposition parties.

As we said in our Progress Report, within any department, the minister and the deputy minister form an interdependent team who together provide the direction and management of the department. We devote the balance of this chapter to a detailed examination of how the responsibility and authority for this direction and management, and consequently, the accountability, are shared by and divided between the minister and the deputy.

Ministerial Responsibility for Management

In our system of government, authority is vested in ministers who are responsible to Parliament for its exercise. This principle of ministerial responsibility means that Parliament can assure itself that power is being exercised lawfully. Ministers are called upon to answer in Parliament for the actions of their subordinates and are held personally responsible for the activities carried out under their authority. This is fundamental to responsible government; if ministers are to meet the demands of responsibility to Parliament, they

must be able to speak with confidence about the actions of their subordinates.

When a minister delegates to a deputy authority for the control, management, and direction of the department, the minister's responsibility persists even if he or she has not the means to control and direct the exercise of the delegated authority. Ministers therefore must be able to assure themselves that actions carried out under their authority are in accordance with the requirements of the responsible exercise of power. In recent years, the ability of ministers to gain this assurance has been questioned, throwing the validity of the whole doctrine into doubt. We see no reason why this should be so. Because it is grounded in convention, the interpretation and application of the doctrine are subject to change.

Circumstances have changed since the development of the doctrine in the 19th century. Today, ministers are not necessarily held responsible for all the mistakes or failings of public service subordinates unless they clearly knew about and ignored them, or ought to have known about them. Even in cases where fault has been found, ministers are not really expected to resign unless they have been personally involved. Moreover, the imposition of the ultimate sanction, Parliament's withdrawal of confidence, is highly unlikely under a system of governments based on disciplined political parties and legislative majorities.

What is clear is that ministers continue to be responsible to Parliament for answering questions, providing information, and indicating that investigations or corrective action are underway if required. This requires that ministers recognize that they may, and likely will, be called upon to answer for all matters relating to their departments. At the same time, ministers must be free to delegate to officials the authority to carry out specific tasks. Ministers must do this with the knowledge that officials understand and accept the tasks assigned to them and will be held to account for their stewardship.

Ministerial delegation of management authority is essential. Ministers face heavy demands on their time. They are members of a political party, constituency representatives, members of the Cabinet and its committees, and Members of Parliament. The obligations attendant on these roles must be balanced with departmental responsibilities, and it is unrealistic to expect that ministers will be able to devote to their departments the time necessary to

gain a detailed knowledge of their operations. This does not detract from responsibility. It does, however, require that the role of the minister be clarified, supported, and strengthened. To this end, the information developed through the Board of Management review of departmental performance should be helpful to ministers in gauging the quality of administration in their departments and the way in which delegated management authority has been exercised. In Chapter 11 we make recommendations to strengthen and support ministers' responsibility for planning and determining priorities and goals in departments.

In summary, we do not accept that the doctrine of ministerial responsibility has been abrogated or its importance diminished. We realize, however, that circumstances have changed and that ministerial responsibility must now be supported by greater delegation of management authority. This, in turn, requires that accountability for the exercise of delegated authority be clearly identified and defined.

The Administrative Authority of the Deputy Head

Our terms of reference suggested and our investigations confirmed, that accountability for departmental management must be focussed in deputy heads. The role and authority of deputy heads are defined in a number of formal and informal ways. Formal definitions of their duties and responsibilities are found in a variety of acts of Parliament, under which deputies are directly assigned responsibility or have authority delegated to them by ministers or by the central agency responsible for implementing the act.

The primary legal basis for a deputy's role is the departmental act. Departmental statutes invariably assign to ministers the management and direction of the department and also establish the position "chief officer" or "deputy head" of the department. A second basis is the *Interpretation Act,* which states in part in Section 23(a): "Words . . . empowering a Minister . . . to do an act or thing, . . . include . . . his . . . deputy." This allows deputies to exercise the minister's authority and to undertake a wide range of tasks on his behalf. These include managing the department, co-ordinating interdepartmental activites, meeting with other governments, and ensuring the implementation of other acts assigned

to the department. In addition, acts such as the *Customs Act,* may assign responsibility for a particular task directly to the deputy head or to another departmental official.

Deputy heads also have specific administrative responsibilities assigned by the minister or by a central agency. These responsibilities are defined under the *Financial Administration Act,* the *Public Service Employment Act,* and the *Official Languages Act.* Together they delimit the managerial role of deputies, establish the basis for their accountability, and underline the fact that deputies are the chief administrative officers of departments.

The Financial Administration Act gives implicit recognition to the management role of deputy heads by assigning responsibility to them, rather than to ministers, in a number of important areas.

1) *Financial and Asset Management* The Act assigns to "the deputy head or other person charged with the administration of a service" authority for the following:

- Control of departmental allotments by means of "an adequate system of internal control and audit". Section 24(4)
- Ensuring the availability of the required funds before any "contract or other arrangement providing for the payment of money by Her Majesty shall be entered into". Section 25(1)
- Maintaining "a record of commitments" chargeable to appropriations. Section 25(2)

2) *Contract Performance* Section 27 of the Act assigns responsibility to deputy heads for approving payment for work, goods or services on the basis that

- "the work has been performed, the goods supplied or the service rendered, as the case may be, and . . . the price charged is according to contract, or if not specified by contract, is reasonable" or
- "where payment is to be made before the completion of the work, delivery of the goods or rendering of service, as the case may be . . . the payment is in accordance with the contract".

In this connection, it should be noted that deputy heads do not have the authority to determine the terms of contracts for work, goods, or services; they may only determine that the terms as above have been met.

3) *Custody of Public Property* Section 53 of the Act assigns to deputy heads authority for the management of public property, stipulating that "the deputy head of every department shall maintain adequate records in relation to public property for which the department is responsible and shall comply with regulations of the Treasury Board governing the custody and control of public property".

4) *Security* Finally, the security inquiry regulations established by virtue of Section 7 of the Act require that all recommendations to the Governor in Council respecting dismissals for security reasons be made by deputy heads.

Very clearly, then, the *Financial Administration Act* makes the deputy head responsible for the financial management of the department and for its administration and operation. The Act does give the minister the final signing authority before payments against appropriations are made, but in practice this authority is delegated to the deputy minister and financial officers in the department under Section 26(1).

Personnel management responsibilities are set out in both the *Financial Administration Act* and the *Public Service Employment Act* and are assigned to the Treasury Board and the Public Service Commission. These two central agencies delegate authority directly to deputy ministers in this area.

The Treasury Board's responsibility for personnel management under the *Financial Administration Act* encompasses manpower requirements and allocation, training and development, classification of positions and employees, determination of pay, standards of discipline, and other terms and conditions of employment. The Board is empowered to delegate this authority to deputy heads by Section 7(2) of the Act, and may "revise or rescind and reinstate" the delegated authority as it sees fit.

Under the *Public Service Employment Act,* the Public Service Commission has exclusive right and authority to make appointments to or within the public service, including initial appointment, promotions, transfers, demotions, and release. Section 6 of the Act allows the Commission to delegate any of its powers, functions, and duties to deputy heads, save for those powers relating to appeals and investigations. The Commission may similarly "revise or rescind and reinstate" the delegated authority.

Under the *Official Languages Act,* when the Commissioner of Official Languages acts on a complaint, it is to the deputy head of the department concerned that he first makes recommendations for corrective action. If the result is not satisfactory, the Commissioner reports to the Governor in Council and not to the deputy head's minister. The Act thus recognizes that if administrative practices or procedures bearing on the use of official languages need to be changed, it is the deputy head who is in a position to direct that these changes be made; he has been directly assigned this responsibility by the Government.

In summary, the deputy head's formally defined administrative authority, whether delegated, directly assigned, or implicit in legislation, provides a clear basis for his managerial role and accountability. In addition, the implicit and explicit duties for which authority has been delegated or assigned should be the basis for a formal assessment of the deputy's performance. Regrettably, this is not now the case. Moreover, such an assessment must take into account that the deputy's responsibilities extend well beyond departmental administration. It is to this wider area that we now turn.

Deputy heads occupy an exceedingly important position in the machinery of government. But while their administrative responsibilities are reasonably well defined in law, the same is not true of the other major aspects of their job. There is little or no legislative guidance concerning the provision of policy advice to ministers, or to the Government, or respecting the support of ministers in their broad collective responsibilities.

Deputies' policy responsibilities require the provision of advice on policies and programs to their ministers individually. They also have a responsibility to counsel the Government, through their ministers and by participation in Cabinet committees, on the potential benefits and risks, including the financial implications, of any proposal. They must be responsive to the policy requirements of the Government and provide sound advice that reflects a perception of the balance among departmental priorities, the Government's objectives, their ministers' concerns, and the public interest. In addition, because ministers are allowed only small personal staffs, deputies, through the department, provide support to the minister in the preparation of speeches, responses to questions in the House, and other activities.

Traditionally, the deputies are non-partisan and capable of serving any Government. Though they are appointed by the Governor in Council on the recommendation of the Prime Minister to serve at pleasure and are, therefore, outside the scope of the *Public Service Employment Act,* most deputies are career public servants. They are the link between the political arm of government and the public service and stand on the frontier between the bureaucracy and the political world.

Deputies, apart from their departmental responsibilities, support the collective management responsibility of the Government. In part, this requires the implementation of financial and personnel management policies established by central agencies on behalf of the Government. In addition, the complexity of the issues with which government now deals makes it more and more likely that the actions of any one department affect, and are affected by, the actions of others. Deputies must, therefore, support efforts by the central agencies to co-ordinate government activities, and at times, subordinate departmental interests to the broader interests of the collectivity. Departmental interests demand, however, that the deputy maintain a distinct role that involves him in continuing negotiations with the centre to secure resources, concurrence with program plans and policy initiatives, and co-operation in the timely provision of supporting services.

As manager of a department of government, the deputy head should focus critically on the policies, programs, and services that must be developed and implemented to fulfil the mandate of the department. Deputies must exercise their delegated authority over departmental organization, personnel, and operations to ensure that maximum value is obtained from resources. In managing existing programs, the deputy's concern must be with efficiency, doing better what is already being done. In implementing policy initiatives of the minister and the Government, when involved in the development of new programs, the deputy's concern must also be with effectiveness. The deputy must be concerned with changing current practices and directing resources to where they best serve the departmental mandate.

Deputies throughout government discharge their responsibilities with varying emphasis and effectiveness. Nevertheless, the deputy is the only senior official who is in a position to see that policy and management responsibilities of departments are appropriately balanced and carried out. The Government must, through

both selection and guidance, strengthen the management performance of deputy heads, in order to improve the efficiency and effectiveness of departmental administration. Given the competing pressures on the deputy, we raised a basic issue in our Progress Report: "Do the policy advisory responsibilities of the deputy minister significantly reduce his or her capacity to give adequate attention to the administration of the department?" We conclude that the answer to this question is "no". The management role can and must be adequately performed and there is no merit in or need for separating the policy and administrative responsibilities.

The Managerial Capacity of Deputies

Given the mix of responsibilities described above, the conflicting accountability relationships they imply, and the demands on a deputy's time and attention they impose, we were concerned about the constraints on the deputy's freedom to manage and, therefore, about the practicability of realistically evaluating his performance and holding him accountable in a meaningful way.

Deputies' responses to the Questionnaire show that most believe they are in control of the management of their departments. They carry out the basic management tasks related to both policy development and operations. They establish direction, gain agreement on specific objectives, delegate authority, deploy resources, review performance, and take corrective action. As detailed in Appendix B,

- deputies overwhelmingly assert that they have developed a clear set of objectives for the department
- the vast majority of deputies agree that they are given early warning of possible significant variances from budget
- they confirm that they are able to keep pretty well to the management priorities that they set
- the majority agree that when authority is delegated in their department, it carries clearly defined objectives
- most say that they can adequately review the use of delegated authority by their subordinates

In most departments there is a formal management group, not always known as a management committee, that meets regularly to address all important departmental issues and to communicate priorities, decisions, plans, and problems. We ascertained from our study of how deputy heads use their time that on average, about two-thirds of a deputy's long working day is spent on management activities. They spend only about 15% of their time in interdepartmental committees, central agency meetings, and Cabinet committee meetings, and about 10% of their time on external contacts. Thus, deputies can and do organize their time to manage their departments. For the most part, they can control the use of their time by carefully selecting their personal participation levels in internal and external activities, limiting their personal intervention to strategic and important issues, and being represented on other occasions by senior members of the department's management team.

Finally, deputies' own perceptions indicate that policy preoccupations do not detract from concern for management. When given an opportunity to select their most important responsibilities, deputies chose a balanced set of tasks that reflects the complexity of their positions in relation both to their ministers and to their departments. Deputies chose the following responsibilities as their eight most important:

- managing my executive team
- ensuring that my department is responsive to the policy thrusts of the government
- supporting my minister
- providing the government with sound policy advice
- assuring economy and efficiency in operations
- adjusting/adopting programs to achieve my department's mission
- setting up/building my department's management capability
- performing the role of leader for my department's employees

The deputies avoided selecting responsibilities that could be characterized as routine, involving administrative and procedural rectitude, the use of regulatory authority, or the undertaking of specific activities. Their particular choices of management tasks

related neither to the size of the department nor to their perception of the department's orientation toward policy or operations. We recognize that the priority given to each task by individual deputies may have been specific to the management problems and requirements of their departments, and that there will inevitably be discrepancies between what deputies consider should apply and what actually does occur. Nevertheless, it is significant that so many deputies define their role in managerial terms, that they speak of accepting responsibility and being held accountable.

We conclude, therefore, that even under present circumstances, there is no overriding reason why deputies should not be held accountable for their management. Indeed, deputy ministers *want* to be held accountable.

Deputy Minister Accountability

The foregoing description of the deputy minister's role is by no means exhaustive, and only suggests the many accountability relationships it involves. In addition to the links to the minister and the Government, and to the central agencies, which imply accountability, the deputy is involved in other relationships that can impose their own requirements for, or sense of, accountability. Perhaps principal among these are deputies' links to Parliament. Deputies appear before parliamentary committees, theoretically as representatives of their ministers, but in fact these sessions provide the only occasion for public examination of departmental administration, which is the direct responsibility of deputies. Deputies can have a sense of direct accountability to the Prime Minister who appoints them and who can dismiss them. They are members of a community of their peers and perceive that they are evaluated by them; they are part of "the side" which must not be let down. They are members of departmental management teams and leaders of employees and have a responsibility for their motivation and well-being. They may act in a variety of formal and informal capacities in relation to Crown corporations, agencies, and advisory bodies within their ministers' portfolios. They are also influenced by a sense of accountability to the public. Some departments serve or otherwise affect a particular group or clientele and the quality of that service is of primary concern. Accountability to

the public can also relate to a responsibility to guard the public trust in the use of resources or to attempt to define and serve the public interest in developing and implementing policies and programs. Some deputies maintain that they are, in effect, accountable only to themselves, and claim to measure their performance against their own standards of excellence.

Despite this gamut of opportunities for accountability, some of which are realized, albeit in a limited way, deputy heads are not regularly held accountable in a systematic or coherent way for program management and departmental administration. It is essential that the authority of deputies with respect to administration be clearly prescribed, and that they be held accountable for that administration. The minister, the Prime Minister and the Cabinet, the central agencies, and Parliament all have specific requirements for an accounting from deputies. All of these requirements must be met, but no one to the exclusion or detriment of the others. We have concluded that what is required, rather than the present state of confusion and diffusion of accountability, is a means of holding deputies accountable so that the needs of each are satisfied.

More specifically, unless the accountability of deputy heads is defined and made real, delegation of managerial authority can never adequately support the individual and collective responsibilities of ministers as we have said it must. This can be accomplished through three distinct but interrelated procedures for setting goals and reviewing their achievement. To this end, we recommend that

> **9.1 departmental plans and performance goals be developed for the minister's approval by the deputy minister in his capacity as *Chief Administrative Officer*, and that the achievement of these program and performance objectives be monitored and later reviewed by the Board of Management in a manner that would permit the deputy to defend departmental performance; and that**
>
> **9.2 deputy ministers be liable to be called to account directly for their assigned and delegated responsibilities before the parliamentary committee most directly concerned with administrative performance, the Public Accounts Committee.**

The third procedure, that for selecting and appointing deputy heads and for appraising their performance, is the subject of the next chapter.

10

THE APPOINTMENT AND APPRAISAL OF DEPUTY HEADS

Following the establishment of the Advisory Group on Executive Compensation in 1967, the Government set up procedures for evaluating performance and determining salaries for the executive category in government, including all Order in Council appointments. Our examination of these procedures, as they apply particularly to deputy heads, however, indicates that managerial performance is not given adequate recognition in the deputy head appraisal and appointment process. In Chapter 7, we recommended an approach to reviewing departmental performance that stresses operational planning and open reporting of progress toward planned objectives; in short, accountability for results. We strongly emphasize this approach. It will provide essential information for use in appraising deputy heads.

This chapter addresses our concern that managerial performance is currently undervalued in deputy head appointments, and is not given recognition and support at senior levels of government. We recognize, and have taken into account, the breadth of deputies' responsibilities, but we are convinced that effective management by deputies is a basic part of their total role.

Deputy heads are appointed to or removed from office by the Governor in Council on the recommendation of the Prime Minister. The function of advising the Prime Minister on senior appointments is performed by the present Secretary to the Cabinet for Federal-Provincial Relations. The Secretary is supported in this role by the Senior Personnel Secretariat in the Privy Council Office.

The secretariat maintains files on all Governor in Council appointees, forecasts likely vacancies, and prepares material on

prospective candidates from both inside and outside government. The secretariat does not have the use of established job descriptions from which to develop selection criteria; there is neither a general description applying to all deputies, nor a specific set of responsibilities for each department. Nevertheless, the secretariat does prepare job profiles for new positions or for positions whose orientation has changed. These profiles are drawn from sources such as the relevant departmental Act, current Government policy, and the Prime Minister's views on future directions in particular areas of responsibility. From these sources the secretariat develops a general picture of the qualities required for a specific position and assesses the strengths, weaknesses, and experience of potential candidates accordingly. This information is used by the adviser on senior appointments in preparing for the consideration of the Prime Minister lists of candidates for appointment by the Governor in Council to individual, full-time positions.

The Principal Secretary to the Prime Minister is consulted about these lists. In addition, the Prime Minister's Office independently prepares lists of candidates for part-time positions that are filled by Governor in Council appointment.

Usually after consultation with the adviser on senior appointments, the Principal Secretary, and the Secretary to the Cabinet, who is also the Clerk of the Privy Council, the Prime Minister authorizes further consideration of some of the proposed candidates. Contact with these candidates is generally the responsibility of the adviser on senior appointments. Before the Prime Minister makes his final decision and proposes the appointment to the Cabinet, he usually consults with the minister of the department in question and with others as he deems appropriate. The appointee may learn of his appointment from the adviser on senior appointments or from the Prime Minister himself.

The Prime Minister has, and needs to have, the prerogative of appointing the deputy head. This power provides him with an opportunity to create a balanced team. Moreover, because the Prime Minister may need to, and often does, change ministers during the life of his Government, he should be able to rely on the deputy minister to provide continuity and a sense of permanence. As well, appointment by the Prime Minister as leader of the Government is justified by the fact that, in accordance with various acts, the deputy head exercises authority on behalf of the Government independently of the minister.

In other respects, however, the present approach to filling deputy minister positions is less than satisfactory. First, the mobility that has been characteristic of the deputy head group (at least until very recently) is too high to ensure effectiveness and continuity in departmental management. Second, insufficient consideration is given to departments' administrative needs and to the management skills of potential deputies.

Whether by intent or because of circumstances, the movement of deputy ministers into and out of departments reached high levels in recent years. In June 1978, the median time for deputy ministers in office was 1½ years and the maximum for any deputy was seven years. Mobility has been increasing. Twice as many deputy appointments were made in the five-year period from 1974 to 1978 to the departments in existence in 1959 as were made in the years 1959 to 1963.

TABLE 10.1
NUMBER OF DEPUTY MINISTER APPOINTMENTS MADE IN 5-YEAR PERIODS, 1959-78

Year	To the 22 Departments Existing in 1959	To the 22 Departments Plus All Others Created Since 1959
1959-63	16	19
1964-68	14	24
1969-73	23	34
1974-June 78	30	41

Not all departments have experienced frequent change. There have been only three Clerks of the Privy Council and three Deputy Ministers of Transport since 1954, and the Department of Finance has had only four deputies since 1953. The following, however, have had five deputies since 1967: Consumer and Corporate Affairs; Energy, Mines and Resources; Employment and Immigration; National Revenue—Taxation; Public Works; Secretary of State; and the Treasury Board Secretariat.

The high rate of mobility among deputy heads of departments and agencies has become a major management problem. If continued, excessive changes could undermine efforts to strengthen management and accountability in government. Frequent change in the leadership of departments, by breaking management continuity, can undermine the morale of organizations. Moreover,

claims cannot be made that wide experience helps make up for the high mobility of deputies. Nearly 80% of present deputies received their initial appointments as deputy heads since 1971, and about half have neither worked at lower levels in the department they administer, nor had the benefit of significant similar experience in related fields before joining the federal government.

Departmental managers have experienced too often the pattern of events that follows replacement of the deputy head. A new deputy means re-orientation, a decision-making pause, potential new priorities, possible re-organization, new relationships, and the anxiety that can precede the establishment of the basic trust upon which all successful organizations depend. This is a trying process; that many departments have experienced it as often as every two years is a partial but vital explanation of low morale in the public service, drifting departments, and the lack of a sense of direction in management. Moreover, a deputy who changes jobs frequently will not have a chance to settle into managing the department after the initial adjustment period; nor will he be required to live with the consequences of his actions if he moves on before their effects are felt. Unless deputy mobility is reduced, the prospects for sound management are slim. We recommend that

10.1 on appointment, a deputy head be expected to serve in his department for a period of three to five years.

Responses to the Deputy Head Questionnaire show that deputies believe that the appointment process is guided by the principle of merit, that the better deputies are recognized and moved ahead, that career success is based more on what one does than on whom one knows, and that they would not be more effective in a deputy post different from the one they now hold. This vote of confidence in the appointment process is encouraging, but most deputies also point to a serious weakness in the present system in that they believe that administrative skills are not given sufficient consideration in making deputy appointments. We agree with this observation.

Our recommendations in earlier chapters with respect to the integrated management responsibilities of the Board of Management should form a basis for ensuring that managerial competence is among the most important considerations in the appointment process. We have recommended that the Board's Secretary for

Personnel Management be the leading participant in the most senior public service appointments below the level of deputy head. Since 70% of deputy heads have come to their posts from lower management positions in the public service, the Secretary would have access to assessments of their performance potential. In addition, he would have participated in the planning of their career development. Moreover, through their involvement in the recommended annual review of departments' administrative performance, both the Secretary and the Comptroller General would be in a position to develop assessments of departments' management needs, internal strengths, and areas for improvement. We believe, therefore, that their views should be sought on the development of management criteria to be met in a specific appointment, as well as on the likely ability of candidates to meet those criteria. We recommend that

> **10.2 the views of the Secretary for Personnel Management and the Comptroller General be sought with respect to all deputy head appointments.**

At the present time, the performance of deputy heads is evaluated annually through what is essentially a peer appraisal process focussed in the Committee of Senior Officials on Executive Personnel (COSO). The Committee is now comprised of four permanent members: the Secretary to the Cabinet; the official serving as adviser on senior appointments; the Secretary of the Treasury Board; and the Chairman of the Public Service Commission; and four other deputy heads who serve on a rotational basis. The evaluation procedure applies to all deputy ministers and Governor in Council appointees who report directly to a minister with the exception of the eight members of COSO and other senior deputies at the DM3 level. Of this group, the two Secretaries to the Cabinet evaluate the other members of COSO and DM3s, and the Prime Minister evaluates the Secretary to the Cabinet and the adviser on senior appointments.

In preparation for the annual review by COSO one of the two Secretaries to the Cabinet interviews each minister to obtain his assessment of his deputy's performance. A staff member from the Privy Council Office usually attends these meetings to make a record. In addition, the Secretary of the Treasury Board and the Chairman of the Public Service Commission have assessments of

departmental performance compiled for their own use by their respective staffs. These three assessments provide the basis of the reports made to the full Committee.

The Committee is first presented with a record of the interview with the minister of the deputy head under consideration. Then the Secretary of the Treasury Board and the Chairman of the Public Service Commission give their own views and report on those aspects of their staff assessments of the department's performance that they consider pertinent. The Secretary of the Treasury Board might discuss the deputy's administrative performance in such areas as program management, personnel and financial management, and official languages policy. The staff review conducted for the Chairman of the Public Service Commission examines the deputy's exercise of delegated staffing authority and adherence to Commission regulations. The Secretary to the Cabinet and the adviser on senior appointments provide their personal assessments of the deputy's general contribution to policy development and co-ordination in the public service. The other deputies add their views as they think appropriate. Finally, the Committee suggests a tentative evaluation of the deputy which is recorded, along with significant comments, by staff of the Senior Personnel Secretariat of the Privy Council Office.

At a subsequent meeting, COSO compares the evaluations of all the deputy heads, and groups the deputies into evaluation grades. The Committee also proposes a pay increase for each deputy, based upon his performance relative to his peers in the same compensation range, for consideration by the Cabinet Committee on the Public Service. The Cabinet itself makes the final decisions on the COSO compensation proposals for each deputy after they have been reviewed by the Cabinet committee. Each deputy is informed by letter of his pay award, of his evaluation grade, and of the average increase awarded the other deputies. The letters to the better performers are signed by the Prime Minister; the remainder are signed by the Secretary to the Cabinet for Federal-Provincial Relations, functioning in his role as adviser on senior appointments.

This evaluation process is a fairly recent innovation that is still evolving and improving. Its existence, and the time and effort devoted to it, show a real interest at the centre of government in deputy head performance. But it seems to us that there has been in the past too much emphasis on policy advice and too little on

managerial competence. Many deputies, moreover, indicated that they did not know what was expected of them and hence could not be aware of the basis for their evaluations.

Given the importance of their position as the chief administrative officers in government, it is essential that deputies be motivated to achieve high levels of performance. Our research indicated that serious concerns exist about the satisfactions of being a deputy head. Many deputies are self-motivated, but others are not and feel the lack of external motivation. Forty per cent of the deputy heads indicated that the satisfactions of being a deputy minister are not worth the personal investment required. Moreover, the present evaluation process does not fill the motivation gap. For example, responses to the Questionnaire indicated that half of the deputies did not agree that COSO is the best vehicle for evaluating administrative performance, and the majority of deputies did not believe that the Treasury Board Secretariat has a good knowledge of their administrative performance. Only four of 27 deputies agreed that deputies not performing satisfactorily were dealt with effectively, and only 40% agreed that a good deputy who wore out early because of job pressure was treated well.

Part of the problem underlying this lack of motivation is inadequate communication. An effective management system involves the establishment of objectives, the measurement of performance, and the development of corrective action. It requires communication, discussion, and agreement between the person assuming responsibility for achieving the objectives and the evaluator. For evaluation to have full meaning, there must first be an understanding of the areas where performance will be judged, and of how performance will be gauged. Also required are an agreement on performance expectations, communication of the evaluator's judgement, and an agreed plan for improvement, none of which now exists. In responding to our Questionnaire, only one-third of the deputies said that they were told what was expected of them when appointed to their job, and only one in seven believed that the members of COSO were well aware of a department's performance goals. Fewer than half reported that they knew what their performance evaluation was for the last year, and only one-third believed they understood the basis on which their performance was evaluated. Only one-quarter thought that their administrative performance was given enough consideration

in their evaluation, and fewer than half believed their contributions to policy had been properly recognized.

A full evaluation of the deputy head should include an assessment of his performance in supporting the minister and the Cabinet, providing policy advice, handling intergovernmental relations or negotiations, undertaking public service co-ordination activities, and managing the department's programs, finances, and personnel. Nevertheless, equal weight cannot be given to each of these responsibilities in all departments. The performance appraisal of the individual deputy must recognize the unique characteristics of his department, and the blend of policy and managerial skills required to run it. While we conclude that managerial performance has been undervalued in the appraisal process in the past, we also conclude that the objective for the future must be a process that balances all of the components of a deputy's role.

The appraisal of the deputy minister's managerial performance cannot be based solely on the report on departmental administration prepared for the Board of Management. Consideration must be given to the state of management in the department and the nature of the challenge it presents. For example, the tasks of turning around a moribund organization, cutting back on the scale of operations, or introducing a major new program require different kinds of managerial skills. Evaluation must, therefore, recognize the point from which the deputy begins. Because each deputy faces different problems and opportunities, each should have specific and individually prepared targets to be used for his performance evaluation.

The Privy Council Office has indicated to us that it intends to take steps to begin to integrate performance expectations into the COSO evaluation. Under this proposal, each newly appointed deputy head would meet with the Secretary to the Cabinet, the adviser on senior appointments, the Secretary of the Treasury Board and the Chairman of the Public Service Commission to discuss problems and issues that face the department and demand attention. During his first eight months on the job the deputy would develop, and seek his minister's agreement to, a statement of his objectives. This statement will be sent to the Prime Minister who could, if necessary, respond to it. The statement will then serve as the benchmark for COSO evaluations. The Privy Council Office has indicated that deputies now in office could voluntarily submit the same kinds of statements to their ministers.

While these proposals are an advance, they need to be reinforced if their full potential is to be achieved. Our investigations show that the problems of motivation, the lack of understanding of performance objectives, and the lack of confidence in the evaluation process are not unique to new deputies; they also affect deputies with long experience in government. A comprehensive and systematic approach to developing performance objectives and keeping them up to date is necessary. We recommend that

10.3 on appointment of the deputy, the Secretary to the Cabinet, the official serving as adviser on senior appointments, and the two secretaries of the Board of Management meet with him to discuss departmental problems, issues, and performance expectations, and that individual objectives be agreed between the minister and the deputy, submitted to the Prime Minister, and serve as the continuing basis for performance evaluations; and that

10.4 these statements of objectives be reviewed annually by the deputy head and the minister, and any changes deemed necessary be communicated to the Prime Minister, the Secretary to the Cabinet, the adviser on senior appointments, and the two secretaries of the Board of Management.

These recommendations are intended to ensure that up-to-date performance objectives are developed and are clearly understood by the parties to the evaluation process. Equal care must be taken to ensure that the deputy's performance is correctly and credibly evaluated.

The performance evaluation and ranking of deputies should be undertaken by those officials who have a direct responsibility for, and knowledge of, some of the significant aspects of the deputy's job. The Secretaries to the Cabinet, who are responsible for supporting the Cabinet committees, co-ordinating policy development, organizing the machinery of government, and advising on senior appointments, have an important contribution to make, and should remain permanent members of COSO. If our proposals are implemented, the Comptroller General and the Secretary for Personnel Management of the Board of Management will be holding full-scale reviews of departmental performance with the deputy. Thus, they should be able to develop a thorough understanding of the deputy's management achievements and the condi-

tions under which he works. They should carry this knowledge through to the appraisal of deputy heads by filling the permanent COSO positions now occupied by the Secretary of the Treasury Board and the Chairman of the Public Service Commission. To give balance to the evaluation process and to help ensure that the appraisal is not dominated by the view from the centre, other senior deputies should continue to serve on COSO on a rotational basis, to bring to the appraisal the perspective of deputies operating within the system.

With the addition of statements of objectives on which to base appraisals and the information obtained in departmental performance reviews, the evaluation should proceed as at present, but with one important exception. The deputy should have the opportunity to comment, in writing, on his evaluation before it goes to the Cabinet Committee on the Public Service. Then a synopsis of the evaluation and any comments can be transmitted to the Cabinet for final decision. Once the evaluation of the deputy head is approved by the Cabinet, it is essential that its results be formally discussed with the deputy. While the results of the proposed review of departmental performance by the Comptroller General and Secretary for Personnel Management would be fully explored with the deputy head, this will not suffice for communication of the evaluation of the deputy's personal performance. The evaluation of the deputy's performance covers other important matters, and therefore must be discussed with him by the Prime Minister's adviser on senior appointments. In summary, we recommend that

10.5 the Committee of Senior Officials on Executive Personnel, comprising the Secretary to the Cabinet, the adviser on senior appointments, the Comptroller General, and the Secretary for Personnel Management as permanent members, and four other deputy ministers appointed on a rotational basis, be responsible for preparing for the Cabinet appraisals of the performance of all Governor in Council appointees who are involved in the management of departments; that

10.6 the deputy head have the opportunity to comment on the evaluation before it is forwarded to the Cabinet Committee on the Public Service and the full Cabinet; and that

10.7 following the final decision by the Cabinet, the annual evaluation of a deputy's performance be discussed personally with him by the adviser on senior appointments.

The implementation of proposals in this Report will significantly strengthen the role of the minister in performance evaluation. The minister should approve the individual performance objectives set by the deputy; he should receive the Board of Management report on the performance of the department; and he should continue to provide a performance appraisal indirectly to COSO. These steps should help to reinforce the minister's ability to fulfil his own responsibility for departmental management. They also emphasize the significance of the close working relationship between the minister and his deputy. While this relationship is already close, our research has confirmed that it needs strengthening.

Our study of how deputies use their time revealed that they spend an average of two to four hours with their minister each week. Deputies also indicated that they have far more contact with their minister than with any other potential evaluator of their performance. Moreover, deputies and ministers frequently use written communication and the services of secretariats to keep each other well informed. In their responses to the Questionnaire, 17 deputies indicated that their ministers had a good understanding of their administrative performance, while only six thought that they did not. At the same time, only eight thought that the Treasury Board Secretariat had a good knowledge of their administrative performance, while 13 thought that it did not.

Ministers may also develop an appreciation of the department's management needs and the deputy's performance through other departmental contacts. Senior departmental officials often meet with ministers and accompany them to Cabinet committee meetings without the deputy being present. As well, ministers travel and meet separately with departmental officials in all regions of the country.

Our reason for emphasizing the importance of the minister-deputy relationship, and demonstrating that the minister has the opportunity to become aware of administrative performance, is to propose one more aspect of involvement for the minister in the appraisal process. Under proposals we have already made, the minister would receive the report of the Board of Management on the administration of the department, and he would provide his own appraisal to COSO. In addition, the minister should become a party to the final evaluation of the deputy through a review of COSO's report. At the same time, in the interests of maintaining

free and frank discussion, the minister should not be privy to the details of COSO's discussion or to the sources of information underlying its report. We recommend that

> **10.8 the COSO evaluation of the deputy be reviewed and, if necessary, commented upon by the minister before its submission to the Cabinet.**

Staff Support for the Senior Appointment Process We have given serious consideration to proposing the establishment of a new Cabinet secretary position with full-time responsibility for senior appointments. While there is justification for such a position, we have come to the conclusion that responsibility for the provision of advice on appointments is an integral part of the jobs of the present Secretaries to the Cabinet, no matter how heavy their present workloads might be. While the task is time consuming, it relates to decisions that can be crucial to the success of government programs and to the general tenor of management across the public service. Moreover, the Prime Minister's time is a limited commodity, and we are persuaded that a third secretary would have limited access to the Prime Minister if his responsibilities did not include other major matters that put him in regular touch. As a result, we concur with the present arrangement in which one of the Secretaries to the Cabinet is also the adviser on senior appointments.

Nevertheless, the responsibilities involved in providing necessary advice to the Prime Minister cannot be fulfilled without senior staff support. This support is now provided by the Senior Personnel Secretariat. In addition to backing up the adviser, it provides staff support for COSO and the Advisory Group on Executive Compensation. It is involved in the career planning of senior officers below the rank of deputy head who are prospective Governor in Council appointees, forecasts upcoming vacancies in the ranks of Governor in Council appointees, develops criteria to be met by candidates for some specific positions, and provides other necessary staff work.

With the implementation of our recommendations, the adviser would also have to ensure that management needs, as well as policy responsibilities, were adequately considered in appointments and reflected in appraisals. His already important responsibilities would grow significantly, with the greater emphasis being placed on management, evaluation, and communication. In carrying out

these expanded responsibilities, the adviser on senior appointments would require competent senior staff support to develop and maintain current descriptions of each deputy head job, and to prepare a statement of the personal skills and knowledge to be sought in choosing a candidate for deputy head appointment. The staff should also prepare a statement of the Government's expectations for the department for discussion with COSO and with the appointee and maintain a record of agreed goals and performance. Finally, senior staff could assist in communicating the results of annual reviews and providing follow-up information to deputy heads.

While our recommendations focus on the evaluation of deputy heads, the extent of staff work required relates to a much larger community. In addition to appointing deputy heads, the Governor in Council has appointment authority for approximately 70 more positions at the pay levels of deputy minister or above, such as the heads of agencies and commissions. The Prime Minister's adviser can also be involved in appointments made by the Governor in Council at pay levels lower than that of deputy minister and the Privy Council staff must also provide support in this area.

The proposals in this chapter should apply to all deputy heads, and to the heads of *Other Designated Departments* as set out in Appendix A to this Report. We recommend somewhat different processes for the other Governor in Council appointees. In Part IV we recommend procedures for appointing and appraising members of *Independent Deciding and Advisory Bodies*. Candidates for these positions should be subject to the same rigorous scrutiny as deputy ministers. The annual establishment of performance objectives at the centre, however, is inappropriate for these positions which must be at arm's length from Government and where Government direction must be overt and explicit. The head of an agency or the chairman of a corporation generally operates independently within the mandate established by Government and Parliament; in many cases both the levels of pay and the terms of appointment are fixed by statute. With respect to *Other Designated Departments* and *Independent Deciding and Advisory Bodies*, the minister should submit annual reviews of the performance of chief executive officers to COSO for subsequent use in the appointment process.

While we accept that the adviser on senior appointments will only be able to devote part of his time to this responsibility, the

staff providing support to him in the Privy Council Office will have to be headed by an officer who will be able to devote all of his time and who, because of the responsibilities he will have, should be able to command the same respect, trust, and confidence across government as is accorded the adviser himself. Obviously, the person filling this role must be, and must be seen to be, at a very senior level. Within the Privy Council Office this role with respect to direction of support staff for senior appointments is now combined with responsibility for government organization and vested in a Senior Assistant Secretary to the Cabinet. We believe that the two roles should be separated; the role of heading the staff providing support in appointments to departments and Crown agencies, including to the boards of Crown corporations, should be upgraded. We recommend, therefore, that

> **10.9 a deputy secretary to the Cabinet be assigned full-time responsibility for supporting the adviser on senior appointments.**

The performance of deputy heads is critical to successful management in government. As chief administrative officer of the department and principal policy adviser to the minister, the deputy minister is in a unique position to influence the course of policy and the manner in which policies are implemented. The process for selecting a candidate and appointing him to a particular position should reflect the pivotal nature of the deputy's role and take into account the candidate's personal skills in relation to the requirements of the position, keeping in mind that requirements can vary among departments, and, indeed, can change over time within a department. In addition, the system for the appraisal of deputy ministers must support the appointment process by identifying personal strengths and weaknesses in a systematic way so that candidates can be matched to the requirements of positions.

The systems of appointment and appraisal of deputy ministers must be linked to a means of identifying the management needs of each department, to ensuring the selection of a deputy minister qualified to meet those needs, to ensuring that deputies know what is expected of them and are motivated to high levels of achievement, and to providing the Prime Minister, the Cabinet, and the minister, who are ultimately responsible for the management of government, with information on the performance of deputies.

11

THE PREPARATION AND REVIEW OF DEPARTMENTAL PLANS

The implementation of the recommendations we have made with regard to the submission of a Fiscal Plan to Parliament, the setting of expenditure limits, and improvements in the format and content of the Estimates will have a dramatic effect on the way in which departments and agencies develop their own plans. They will have to plan, for both the medium term and the short term, within finite limits that are known to all. Their activities will be clearly related to objectives and measurable outputs. The responsibilities of program managers will be linked directly to specific resources. These changes will result in useful departmental plans which are needed if financial management and accountability are to be strengthened. In this chapter, we explore how medium and short-term plans should be assembled by departments and agencies, and centrally screened so that they meet this objective.

Given that the Government's Fiscal Plan will be implemented by departments, changes in departmental planning processes and organization are needed to ensure responsiveness, and adherence, to the Fiscal Plan, and to provide departmental managers and the central agencies with a means for monitoring and measuring progress toward approved objectives. We propose that the Program Forecast be replaced by a medium-term planning document, the *Departmental Strategic Plan,* and that this plan, and a document setting out key short-term goals and objectives, be submitted in support of the department's individual Estimates.

A strategic plan should state how, in terms of its programs and activities, the department has responded to the Fiscal Plan, and should set out medium-term goals and objectives that are consistent with the Fiscal Plan. The strategic plan sets the frame-

work within which the department's annual Estimates are developed and submitted. The Estimates in turn should be translated into operational plans, or detailed departmental budgets, that include the setting of goals, the allocation of responsibility, the assignment of tasks, and the establishment of a basis for management and accountability, using, where possible, indicators against which performance can be measured. This implies a departmental organization based upon the explicit designation of missions, expected results, and performance indicators.

We propose more regular direct contact between the Board of Management and departmental ministers in the review of their plans and Estimates. The Board of Management review should focus on the ways in which the plans would provide for economy, efficiency, and effectiveness. Furthermore, the Board of Management should assume a reactive monitoring role over departmental achievement of objectives.

Good planning in an operational unit requires that the availability of resources be established, priorities be identified and objectives set, and the most effective way of attaining these objectives be determined. The planning process must also make it possible to determine the effectiveness of a program by measuring its benefits against the costs involved. Programs must be clearly linked to the persons responsible for them. A system that establishes these clear relationships is therefore a prerequisite to putting any departmental planning process in motion.

Planning in government must start at the top, for it deals with a department's objectives and the policies and programs selected to meet them. These are the prime concerns of the minister and the deputy minister. Any change of objectives affects all parts of the department to some degree. Only the senior departmental management team has the broad knowledge of internal and external conditions necessary to ensure that plans take proper account of governmental priorities and constraints, and developments in other departments, at other levels of government, or in the private sector, as well as particular constraints within the department itself.

Our review of the planning processes in departments has revealed that senior-level participation in planning has been insufficient. Senior financial and personnel officials are not always involved in department planning even though planners could benefit from their skills and advice and planning decisions will eventually affect their areas of direct authority and responsibility.

Deputy ministers carry responsibility for overall departmental operations, but, in order to fulfill this responsibility, they must delegate authority for carrying out individual activities to managers who can, in a manner analogous to the deputy himself, be held accountable. This requires that measurable outputs be identified and expected results stated for each activity centre. Within each activity centre responsibility should be all-inclusive. Activity managers must be provided, within clearly defined mandates, appropriate autonomy and authority over those who work for them, over the financial resources allocated to them, and over the assets they control. We recommend that

> **11.1 deputy heads of all departments ensure that their organizational structures clearly reflect that responsibility centres are directly related to programs, activities, or sub-activities that can be identified with particular resources and, where possible, with specific measurable outputs; and that**

> **11.2 such responsibility centres be under the control of managers who can be accountable for establishing plans and achieving results.**

Setting up an organization that meets these requirements, determining an overall departmental plan, and ensuring that responsibility centres develop their own plans in the light of the departmental plan are the responsibility of the deputy minister. He must also ensure that plans contain clearly identifiable medium and short-term goals whose attainment can be measured and used as a basis for the performance appraisal of his management team and the managers of all responsibility centres.

The clarification of present management systems is, we recognize, a significant undertaking, but it will bring dividends. Organizational structures now in place do not clearly reflect authority and responsibility. Line and functional authorities overlap or are otherwise blurred. The respective management authority of regional and headquarters personnel is difficult to determine. Plans are not always committed to paper for review and approval at appropriate levels. Departmental priorities are not clearly communicated to managers of responsibility centres. Goals are not set and thus cannot form part of the performance appraisal system.

To introduce departmental planning of the type we recommend, to bring it to a level of excellence, and then to keep it

running, require the complete involvement and commitment of deputy ministers and their management teams. We recommend that

11.3 each departmental management committee place priority on developing strategy and plans by setting medium-term departmental objectives, by approving challenging goals for managers, and by communicating these objectives and goals clearly to managers of responsibility centres.

Departmental management committees usually comprise the deputy minister and all assistant deputy ministers in charge of programs and major activities. They should also include the senior financial and personnel officers, who would be looked to for objective advice and criticism regarding the validity of the objectives and goals in view of financial considerations and personnel capabilities and the reliability of measures of performance.

Departmental Strategic Plans

As we described in Chapter 6, the Program Forecast was originally intended to be a statement by senior management of plans for five years. It required approval by the Treasury Board Secretariat at a date early in the summer so that the short-term plans presented in the Estimates and reviewed in the fall could reflect the Secretariat's suggested changes in emphasis or approach. As we pointed out, the Program Forecast has not met the objective of exacting such senior level plans from departments. It fails to address major policy and management issues of a medium-term nature, and does not effectively relate programs and their costs to the likely benefits arising from them. It contains too many numbers at the expense of informative narrative on objectives and expected results. Its presentation and content are limited by the constraints of standardized format and it covers too short a time period. In the light of these major faults, we believe that the Program Forecast should be eliminated and a fresh start made.

The requirements of a new process for departmental planning are that it fit into our recommended Fiscal Plan and Estimates processes, that it support and enhance the thrust for accountabili-

ty, that it require senior management participation, and that it be workable. We suggest that an appropriate title for this new document would be the *Departmental Strategic Plan.*

The Departmental Strategic Plan should reveal how a department intends to conduct its affairs over Years 2, 3, 4, and 5 of the most recent Fiscal Plan. It should cover a longer period if the department is a significant capital spender involved in major projects using highly complex technology. It should be updated every year in the light of the new Fiscal Plan and revised expenditure limits. It should be submitted to the Board of Management in support of the department's Estimates submission so as to show how short-term proposals relate to longer-term strategy. Like the Estimates submission, the Departmental Strategic Plan should be screened by the Board's secretariats with regard to its financial implications and its impact on personnel.

A well-structured Departmental Strategic Plan should first set out the background against which it has been established. This should include a review of relevant social and economic trends likely to influence the department's ability to fulfil its objectives. It should contain an indication of how changes in the Government's broad priorities would affect the department's strategy. In addition, it should address the likely effects on medium-term plans of implementing recommendations made to Parliament by standing committees or by the Auditor General in his annual report. It should review changes in strategy deemed necessary as a result of the department's internal examination of the efficiency and effectiveness of its own performance, and whether value for money in program delivery was obtained.

The Departmental Stragetic Plan should then set out how the department intends to meet these requirements for change by modifying departmental objectives, priorities, and programs, and by identifying new initiatives and their approximate resource requirements, or activities to be eliminated and the consequent savings. It could go on to describe operational changes contemplated during the period of the plan to meet changes in objectives, and to provide greater economy and efficiency. Such matters as personnel planning, organizational improvements, modifications in ongoing accommodation and supply needs, and elimination of overlap with other departments and agencies could be covered. This description should be accompanied by details of the impact of these changes on the department's future resource requirements.

A department's strategic plan should also review the suitability of the departmental expenditure limits for the current year and the year following. It could show, for example, that some activities had been replaced by higher priority items, or that savings had been generated so that limits could be met. A good plan would also identify activities where future savings could be generated through more efficient procedures or by transferring activities to other levels of government or to the private sector.

The Departmental Strategic Plan should also show how the costs of programs and activities would be accommodated within the expenditure limits for Years 2 and 3 of the Fiscal Plan, and, in the light of the inflation assumptions and functional expenditure limits in the Fiscal Plan, the general order of magnitude of such costs for the two remaining years. It is within the framework of these strategic plans that departments should go on to develop their operational plans in the form of Estimates for presentation to the Board of Management, the Cabinet, and Parliament. Strategic plans should be submitted to the Board in support of Estimates, but should not be considered to be immutable. For this reason, they should be submitted only for the Board's information, not for formal approval. As part of the medium-term planning process of government, Departmental Strategic Plans should also be provided to the Department of Finance and the Privy Council Office for information and consideration in the context of Fiscal Plans. Indeed, these strategic plans will be important sources of information for determining departmental expenditure limits.

These plans need have no standard format. They should be judged on the extent to which they reflect Government priorities, the Fiscal Plan, parliamentary recommendations, and critiques of previous departmental plans and performance. Plans should take these factors into account by showing clearly the changing relationships among objectives, programs, and activities, and the efficient and economical use of people and money for a four-year period. Departmental Strategic Plans should represent the commitment of senior departmental managers to a series of actions over a fairly long period of time. Some of the proposals will relate to major concerns of the electorate, Parliament, and the Government, as well as the department. Thus, they should be prepared by the deputy heads of departments in close consultation with their ministers and with the active participation of departmental man-

agement committees. Those who must be committed to effecting the plan must have participated in its establishment.

The Departmental Strategic Plan we propose bears some resemblance to the Program Forecast as it was originally conceived, but little to what that Program Forecast has become. The most significant change is that plans will be drawn within the limits of finite resources. Second, while the plans would have to disclose information within minimum standards prescribed on a government-wide basis by the Comptroller General, they would outline departmental goals as perceived by the managers accountable for their achievement, and not according to a hidebound format dictated by a thirst for financial data. Finally, plans would be presented to the Board of Management in support of the detailed Estimates, so that the two documents could be compared and related to each other. We recommend that

> **11.4 the preparation and submission of Program Forecasts be discontinued; and that**

> **11.5 departments be required to prepare *Departmental Strategic Plans* each year for submission to the Board of Management in support of the Estimates, and to the Department of Finance and the Privy Council Office for their information and consideration.**

Departmental Estimates and Statements of Operational Goals

In Chapter 6 we set out proposals for simplifying the format of the Estimates. We stated that separate Estimates should be submitted by each department and agency in the format best suited to disclosing their intentions for the Estimates year. We went on to describe the contents of the detailed narrative that should accompany the Estimates. This narrative should also relate any changes in the Estimates to changes in the Departmental Strategic Plan.

While we encourage comprehensive disclosure of spending intentions in the Estimates, we are aware that there are practical limits to what can be published for the information of Parliament

and the general public. Nevertheless, for the purposes of the Board of Management, Estimates should be supported by Departmental Strategic Plans and by statements of key operational goals. While strategic plans would display medium-term intentions, statements of operational goals should reveal short-term intentions. These statements should include the major objectives that the minister and deputy wish to achieve during the Estimates year. This additional support of the Estimates should take the form of a memorandum to the Board of Management expressing the key operational goals, explaining how they fit into the Departmental Strategic Plan, showing their relation to the financial and human resources requested in the Estimates, and stating the results expected and the ways in which the results will be measured.

The establishment of key goals on an annual basis has several uses. In the first instance, explanations of year-to-year changes in resource allocation displayed in the Estimates are most likely to be found by referring to these annual operational goals rather than to statements of longer term strategy. Second, a statement of key goals focusses attention on major matters of principle and renders the subsequent discussion of numbers more meaningful. As a corollary, the value of key goals would be placed in doubt if major changes in resource utilization did not reflect the goals selected. Finally, annual operational goals could become significant factors in assessing management performance and exacting accountability for it.

While the final selection of key goals to be achieved in the Estimates year should be determined by the minister, this decision should be made on the advice of the deputy head who, in turn, must work closely with the departmental management committee to identify goals. The deputy and the management committee must also ensure that goals are communicated clearly to responsibility centre managers so that they can take account of and support departmental goals in establishing their own operational plans. Responsibility centre managers should then ensure that their operational goals are supported by satisfactory and measurable standards of performance, and that they are directly tied to the share of resources available for achieving them. The communication of these goals should be accompanied by indications of the resources available to each responsibility centre to meet them and to carry out their other activities so that when the departmental Estimates are assembled they will reflect the fact that allowance

for achieving these goals has already been made. In summary, we recommend that

> **11.6 the departmental Estimates submission to the Board of Management be accompanied by a memorandum outlining the key operational goals to be achieved by the end of the Estimates year.**

Since the content of the Estimates would be largely determined by departmental managers, there should be no constraints on the inclusion of any information that they consider relevant. For example, in Chapter 6 we recommended that the practice of vote-netting be discontinued. Notwithstanding this recommendation, a department providing specific services to a defined class of user could set out the revenues from the service and compare them to the costs of providing it. Indeed, we would encourage this practice. Similarly, a department could usefully set out how its operations interlock with those of another by revealing the benefits exchanged between them, provided these benefits are quantifiable. For example, the Department of Public Works could, in its Estimates of capital construction costs, give details of major building projects, including the department for which a building was being erected, the building's square footage, and how many people it would accommodate.

The establishment of key operational goals and decisions on the form and content of departmental Estimates will require close consultation between the deputy head and the minister. The minister must also formally approve the Estimates submission and should do the same for the operational goals and the Departmental Strategic Plan. This would provide ministers with an opportunity to emphasize their policy concerns, to ensure that departmental plans took them into account, and to become aware of administrative problems faced by their deputy ministers. Finally, prior consultation should help to ensure that both the minister and the deputy can fully explain and justify their departmental Estimates requests before the Board of Management.

Screening Departmental Estimates The setting of expenditure limits in the Fiscal Plan, the requirement that departments develop and submit strategic plans, and ministerial involvement in the preparation of Estimates submissions should change significantly the approach taken to screening plans and Estimates prior to their submission to the Board of Management. We have recommended

that this key task be entrusted to the Comptroller General. However, in carrying out this task, his staff would not question the total amounts requested by departments as the Treasury Board Secretariat now does. These amounts would have been determined and allocated many months previously by the Cabinet when it approved the Fiscal Plan on the recommendation of all three central agencies. Second, because of the financial and administrative responsibilities we recommend for the Comptroller General, the Financial Management Secretariat should adopt a management oriented, rather than a policy oriented, stance in screening plans. The Financial Management Secretariat should screen plans submitted to the Board of Management to ensure that they comply with the wishes of Parliament, the Government, and the Board itself. In doing this, the Secretariat would raise considerations similar to those now raised by the Program Branch of the Treasury Board Secretariat. These would include the following:

- Has the department correctly interpreted the Government's priorities?
- Has the department adhered to its expenditure limits as reflected in the most recent Fiscal Plan and in any amendments to it?
- Do any programs or activities overlap with those of other departments or agencies?
- Have established standards of disclosure been respected, have acceptable accounting principles been employed, and is the accompanying financial data and narrative factually accurate and relevant?

The screening process we envisage, however, should go far beyond these four considerations, important as they are. Such a screening process should evolve to become an annual review of departmental responsiveness to suggestions for improvement, and of management and administration generally. Additional considerations that should be taken into account, therefore, include the following:

- Has sufficient consideration been given to matters raised by parliamentary committees in their various reviews, including reviews of both statutory expenditures and major voted programs?

- Do the plans incorporate or otherwise respond to improvements suggested by the Auditor General and the Board of Management (including both secretariats)?
- Is appropriate emphasis being placed on programs and activities that are demonstrably effective and, conversely, are ineffective programs and activities being weeded out?
- Are economy and efficiency being practised and encouraged?
- Is the department organized and staffed to meet changing needs?
- Do plans associate goals with the people responsible for achieving them, and is authority commensurate with these responsibilities?
- Are the plans and goals realistic?

The Personnel Management Secretariat should also participate in this screening to ensure that staffing plans are realistic and that the plans indicate steps to deal with weaknesses in the field of personnel management.

At the conclusion of the screening process, the departments should receive comments on these various matters from the Personnel Management and Financial Management Secretariats. These might be accompanied by a suggestion that the department either amend its Estimates submission or postpone a program that does not have high priority. We are proposing this approach to ensure that the review of plans is given the attention it merits, that any contentious issues or problem areas are brought out in a formal manner and not in a piecemeal fashion or on the basis of hearsay, and that dialogue between departments and the reviewing agency is frank and explicit. We recommend that

> **11.7 the screening of departmental plans be concluded by the transmittal of a letter to each minister from the President of the Board of Management, and that this letter comment on the results of the screening and report any unresolved or other important issues.**

Approving Estimates Submissions Departmental Program Forecasts are now approved by the Treasury Board in June, and Estimates submissions are approved in October or November on the recommendation of the Treasury Board Secretariat. Ministers

and deputy ministers generally appear at the sessions when the Board is considering these documents only if they wish to dispute any of the Secretariat's recommendations. The present process fails to acknowledge the nature of the respective responsibilities, and hence the accountability, of the departments and agencies or the Secretariat. The Treasury Board itself has failed to gain a good knowledge of departmental managers' plans and problems. In summary, the process itself is responsible for much of the misunderstanding and distrust that exist between the Secretariat and the departments and agencies. We believe that implementation of our recommendations would result in a process characterized by frankness, fairness, and trust. We recommend that

> **11.8 the minister responsible for the Departmental Strategic Plan and Estimates, accompanied by the deputy head, appear before the Board of Management to explain and justify his Estimates submission, and that the Comptroller General and the Secretary for Personnel Management attend these meetings to respond to any questions from the Board about their interpretation of, or recommendations on, the plans and the Estimates.**

If the Board of Management fulfils the mandate we propose for it, it is possible that these sessions will result in recommendations from the Board for changes, particularly in strategic plans as they relate to operational economy and efficiency. To further strengthen accountability and planning processes any such recommendations should be formally transmitted to departments, and their implementation monitored by the Office of the Comptroller General. We recommend that

> **11.9 the Financial Management Secretariat monitor the implementation of recommendations made by the Board of Management for any changes in departmental plans or Estimates.**

Once Estimates submissions are approved by the Board of Management they are submitted to the Cabinet for its concurrence before they are presented to Parliament. It is at this time that any major differences between the Board and an individual minister should be resolved.

The recommendations in this chapter support our more general proposals for improving the effectiveness of planning at the senior levels of management. They should contribute to the establishment of a chain of accountability where responsibility is clearly set out and where the results expected from the use of resources are plainly stated. We believe that the proposals will bring about a substantial improvement in the general quality of departmental financial management. At the same time, however, departments must be organized to achieve the objectives set out in their plans. The realization of these plans depends on the successful deployment of people and other resources, on the existence of appropriate supporting systems, and on the presence of a means of monitoring progress toward goals and taking action to correct deviations from plans. The balance of this part of the Report is devoted to describing how departments should put in place such mechanisms and processes.

12

THE DEPUTY AND THE DEPARTMENTAL MANAGEMENT TEAM

The deputy's ability to manage people and his authority to organize and to influence the selection of senior managers are critical to the department's performance and to his own accountability. The senior management category includes approximately 2,000 Senior Executives (SX) and SX-equivalents, and approximately 7,500 incumbents of positions in each of the two levels immediately below SX, for example, PM-6 and 7. This group of senior managers constitutes only 3% of the total public service, but the work of its members is vital to the efforts of deputy heads, who must direct their activities, delegate authority to them, and work with them to achieve the Government's goals and objectives. If people occupying senior positions do not have the skills or motivation to complete their tasks, or if roles or delegated authority are confused, the organization will fail to meet its aims.

It is elementary that the performance of the deputy head is in large part a function of his ability to recruit and motivate people to do the tasks required. As we have shown, there has not been full and clear delegation of authority for personnel management from central agencies to deputy heads of departments. In turn, these ambiguities and shortcomings are reflected in the internal organization and procedures of many departments and agencies. Many of these failings stem from a lack of clarity in identifying objectives and setting tasks. Our conclusion is that deputy heads have less authority in personnel management than in any other area, and that lines of authority are confused and inconsistent among departments.

In this chapter we examine existing personnel management processes and make recommendations to assist deputies in improv-

ing the performance evaluations of managers, organizing the management team for effectiveness, dealing with managers whose performance is below a satisfactory level, and strengthening the career development plan for executives.

Basic to any system of compensation and motivation is the accurate and equitable assessment of performance. This ingredient is missing to an alarming degree across government. Of 27 deputy ministers responding to the Deputy Head Questionnaire, 17 agreed that personnel systems and practices have fostered the overrating of SX performance, while 17 thought that merit was not properly reflected in pay increases.

Deputy ministers and officials of the Treasury Board Secretariat have stated to us that executives, once appointed to a certain classification and grade, rise to the top of that grade in a seemingly inexorable way. It is also apparent that there is insufficient distinction between the level of compensation of satisfactory performers and less satisfactory performers.

An assessment of performance should be the basis for advancement and increases in pay. In the past, deputies have tended to rank the performance of executives as being extraordinarily high. In 1976, 97% of all executives were ranked "fully satisfactory" or better, including 56% who were ranked "superior" or "outstanding". Only 3% were considered "acceptable" or "not satisfactory". In 1977, after this serious problem was highlighted by the Advisory Group on Executive Compensation, the Treasury Board issued instructions specifying limits on the percentage of executives who could be ranked in the top grades. This practice should be continued and extended to other groups of employees in order to achieve a more realistic distribution.

Further steps must be taken, however, to correct the problems associated with performance appraisal. Senior officials of the Treasury Board Secretariat and the Public Service Commission have reported to us that appraisals of executives are frequently of low quality and not based on uniform standards. Our investigations show that underlying this deficiency is the failure of some deputies to set objectives for managers, to assess their performance, or to communicate the results of appraisals to them. A system of delegation and accountability is not yet in place in some departments. Deputies of these departments should be able to turn to the Secretariats of the Board of Management for assistance in designing and learning how to use methods of delegation and

performance appraisal. Without them, deputies cannot exercise appropriate authority over their management teams. Most experienced deputy ministers have informed us that meaningful objectives can be established and that criteria for performance assessment can be developed. We conclude from this testimony that our proposals can be implemented if appropriate guidance is available and if the will exists.

For a comprehensive system of accountability to work, senior departmental managers must develop objectives that are understood and accepted, that conform with Government priorities, and that provide an adequate basis for the subsequent evaluation of departmental performance. Each responsibility centre in turn must develop subordinate objectives so that the department has an integrated system of objective setting and performance measurement that links the efforts of each manager to the performance of the department and, through the deputy and the minister, to the Government. It is clear to us that the organization of each department should be based on discrete units that use resources and produce measurable results, and are under the control of managers who can be held accountable. The units would be responsible for the components of programs under the general control of the deputy minister. Such a system should ensure that the objectives of these responsibility centres are clearly related to the objectives of the department, and establish a clear chain of responsibility for results from managers of responsibility centres, through senior managers, to the deputy.

The deputy should take the lead in the management of the human resources in the department, for, as chief administrative officer of his department, he assumes responsibility for the morale and well-being of all his personnel. Consequently, performance appraisals must be of the highest quality and prepared with the greatest degree of objectivity and integrity. What is needed to improve the quality of performance appraisals is not new systems and procedures, but that more deputies assign high priority to this basic management task and recognize that their own accountability is significantly affected by their success in this area. Therefore, the deputy's ability to set objectives for subordinates and measure their performance should be a major factor in his own annual performance appraisal. We recommend that

12.1 the Board of Management require the deputy to ensure that goals are set for each manager reporting directly to him, that goals focus attention on the most important problems and priorities in the manager's area of responsibility, and that they provide an objective basis for measuring the manager's performance.

The deputy's second important function with respect to departmental management is determining the composition and organizing the work of the department's executive group. Responses to our Questionnaire indicated that deputies recognize the importance of this task; they selected the setting up of the department's management capability as one of their most important responsibilities. While the legal responsibility for organization and personnel appointments rests with the Treasury Board and the Public Service Commission, authority in these areas has been delegated to deputy heads, but only partially and inconsistently.

The Treasury Board has responsibility for the organization of departments by virtue of the *Financial Administration Act*. The Treasury Board has delegated authority to deputy heads to organize units within the department involving positions up to and including the SX-2 level. Deputy ministers must seek approval from the Treasury Board for organizational changes involving the most senior of public service positions, SX-3 and 4, which are usually at the level of assistant deputy minister or equivalent. For all SX and SX-equivalent positions, the Treasury Board also determines the classification, that is, the occupational group and level to which a position is assigned for pay purposes. The Board delegates to the deputy minister classification authority only for positions below SX-1. In essence, the Treasury Board retains the power to make decisions affecting all positions and organizational arrangements that affect departmental management.

The deputy should have the authority to deploy and re-deploy people to the tasks that require their particular skills and expertise. The deputy should be able, for example, to reorganize by taking advantage of the strengths of individuals and shifting responsibilities among executives rather than simply filling a position when it becomes vacant. He is prevented from doing so, however, by complex regulations and procedures governing the classification of people and positions and the appointment of qualified people to

classified positions. To classify positions, the deputy now must work through a complex process of some 20 steps that is controlled by the Treasury Board Secretariat and involves submissions on a case-by-case basis. The process is not only very time-consuming, but it limits the deputy head's flexibility to re-deploy managers to meet new demands placed on the department without accompanying increases in man-year ceilings. It also does not allow deputies to deploy good people to the jobs in which they are needed.

Once positions have been classified, public servants must be appointed under the *Public Service Employment Act,* which assigns to the Public Service Commission authority for appointments to and within the public service. While the PSC has delegated much of this authority to deputy heads, appointment authority at the senior management levels has been withheld. The PSC has retained almost all authority for staffing decisions—appointment, promotion, transfer, demotion and release—in the management group, though, to its credit, it has adopted procedures that mitigate this lack of delegation. Appointments to positions at these levels are made by the Public Service Commission only on the recommendation of the deputy head. Nevetheless, the present system of delegation is such that in one department with 12,000 employees, the PSC delegates to the deputy minister appointment authority for only seven of the 60 positions in the top two levels, and 150 of the 300 positions in the top four levels. Even if they are consulted on appointments, deputies find it particularly difficult to demote or release executives when performance is unsatisfactory.

In addition, the levels of authority delegated by the Public Service Commission and the Treasury Board are uneven. The PSC has delegated less authority for staffing senior positions than the Treasury Board has delegated for classifying senior positions. The Treasury Board in turn has delegated less authority for classifying senior positions than it has for organizing the management team. Not only is this situation confusing, it also reduces the real authority of the deputy head. These three components of personnel management—organizing, classifying, staffing—are so interdependent that the lowest level of authority delegated for any one of these becomes the deputy head's effective level of authority in building or restructuring the management team.

Not all deputies feel these constraints to the same degree. Some deputies have such status or experience in the federal

bureaucracy that they are able to exercise decisive personnel management leadership in their departments despite central controls. Others, perhaps less confident or less experienced, have not been able to operate with equal ease and feel frustrated in their attempts to manage. A few, not interested in the management of people, or preoccupied with pressing policy issues, avoid assuming these responsibilities at all. Thus, while deputies are theoretically delegated the same degree of personnel authority, in practical terms the exercise of personnel authority varies from one deputy to another. Rules can be circumvented and double standards can exist in their application. As a result, the personnel management system appears capricious, subject to the whims and personal power of the different participants.

To establish accountability for personnel management and to give deputy ministers the tools to do the job, we propose that deputies be delegated uniform authority for organization, classification, and appointments. For all positions *below* those of assistant deputy ministers and equivalents (that is, senior financial and personnel officers and other senior managers reporting directly to him), the deputy should have full delegated authority for organization, classification, and appointments, subject to eventual audit and accounting. For assistant deputy minister and equivalent positions, the deputy should be required to obtain approval for organization and classification from the Board of Management. For appointments to positions at this level, we propose that the Secretary for Personnel Management draw up a short list of candidates for vacancies which may occur. The deputy head could add to this list in consultation with and subject to the agreement of the Secretary. The deputy head would then select a candidate from the list and the Secretary for Personnel Management should make the appointment. Transfers, promotions, demotions, and release should be recommended by the deputy to the Secretary. This approach would make due allowance for the role of the Secretary in ensuring that departments do not become insular in their senior personnel policies and that a service-wide perspective is maintained in senior appointments, but would not reduce the management authority of the deputy.

Delegation of authority to the deputy can, and should, be withheld if there are clear indications of weakness in this area or abuse of the authority. As an example, the Board might temporari-

ly withdraw classification authority from a deputy head if an audit or an annual departmental evaluation showed that positions were being over-classified. Action should only be taken when there are specific indications that delegated authority is not being properly exercised. Moreover, the reasons for withholding authority should be explicitly stated, in order to avoid the risk of unwarranted and irresponsible interference in the management of departments and to enable deputies to take corrective action.

For the positions below the level of those reporting directly to the deputy, we believe that there should be a further delegation of authority within the department, on a similar basis. For example, assistant deputies should be required to seek approval from the deputy for actions regarding the executives who report directly to them, but should have authority to approve staffing actions below that level. Extending this pattern of delegation, which might be called a "recommend-approval process", down through the management hierarchy would establish a clear chain of accountability of responsibility centre managers to program managers, of senior executives to the deputy head, and of the deputy head to the central agencies. It should also ensure the involvement in each personnel action of an officer with a broader perspective than that of the manager immediately responsible for the relevant decision. This would reduce the chances of arbitrary action, inconsistent approaches, and unfair treatment. While this proposal may seem to be the system already in place in some departments, the actual degree of delegation in departments at present varies with the centralizing philosophy of the deputy or his senior managers.

The deputy head should withdraw or limit the personnel management authority of departmental managers only for a good reason. For example, a deputy head might take personal responsibility for organizing and staffing several levels of a new program to ensure that it is satisfactorily launched. Any arbitrary limitation of authority, however, tends to signal a lack of trust in the judgement of subordinates. Often this stems from fundamental management weaknesses and in these cases the deputy should move to resolve the root problem so that a return to a more decentralized organization is possible. In summary, we recommend that

12.2 deputy heads be delegated the authority for approving organization, classification, and staffing decisions affecting

all positions below the level of assistant deputy minister or equivalent within existing complements; that

12.3 the deputy's recommendations for the classification of positions at the level of assistant deputy minister and equivalent, and changes in organization involving positions at this level, be subject to approval by the Board of Management; that

12.4 for assistant deputy minister and equivalent positions, the deputy head select a candidate from a list drawn up by the Secretary for Personnel Management and recommend that candidate for appointment by the Secretary for Personnel Management; that

12.5 deputy heads establish similar procedures for delegating authority for and approving classification, organization, and staffing decisions within departments; and that

12.6 the Board of Management ensure the effective discharge of these fundamental personnel management responsibilities by deputy heads through audit procedures and annual departmental performance reviews.

One of the greatest difficulties faced by deputy heads is handling performance problems. We base this conclusion on interviews with senior officials of the central agencies, who stated categorically that the procedures for dealing with unsatisfactory performance are inadequate. This was confirmed by deputy heads in meetings with us and in their responses to the Questionnaire. Of 27 deputy heads responding, 17 agreed that one of the biggest challenges facing government is dealing with unsatisfactory performance in the public service; 13 agreed that one of the "biggest management problems is dealing with deadwood"; 18 indicated that they did not have adequate authority to get rid of unsatisfactory performers; and 22 agreed that they needed new options to deal with performance problems of senior managers in their departments. Although there was not unanimity in the responses, the balance in them indicates that there is a problem.

The grounds for releasing an employee under the *Public Service Employment Act* are incompetence and incapacity, as determined by the Public Service Commission. In addition, the Treasury Board may discharge an employee on grounds of misconduct. Of the 31,731 separations from the public service in 1976,

there were only 119 dismissals for incompetence or incapacity and another 93 for breach of discipline or misconduct. In order to dismiss an employee, departmental managers must build a case which proves incompetence, incapacity, or misconduct, and which is capable of withstanding every form of legal objection. Deputies report that eighteen months to two years and an extraordinary amount of energy are required to build a case once the decision has been taken that an employee should be demoted or released.

Lateral transfers, involving no change in rate of pay or position level, are frequently the line of least resistance in resolving performance problems. Obviously this approach usually only shifts the problem without solving it; but even when a lateral move might be more appropriate than demotion or release, it is often difficult to effect. Unless proven incompetent, the incumbent has the right to remain in a position won by competition and to refuse a transfer. Moreover, the job to which a poor performer could be moved might also be subject to competition and therefore the deputy would not be free to appoint him to it.

Not all the fault lies with the system. Managers have a full year to decide whether to confirm most appointments of officers, and all appointments of senior executives. During this time managers have the option of returning the appointee to his original position. More careful monitoring of performance during the first year, and a greater willingness to exercise this option, would help to reduce future problems. Nevertheless, once an officer has attained and been confirmed in a position, he is virtually assured continuing employment at that level (and sometimes in that job) until he reaches pensionable age. Only if his superior expends extraordinary effort or resorts to such subterfuge as "reorganization" to discontinue a function, or if the work he performs is declared redundant, can he be released. Deputy heads often find it more expedient to work around an unsatisfactory performer, leaving the deadwood in the system and contributing to the demoralization of the whole organization.

If performance evaluation and accountability are to be meaningful, there must be a means of responding to the results of evaluations. Employment and promotion cannot be seen as a one-way street. The ineffective use of personnel resources cannot continue. The establishment and maintenance of rigorous standards would be a beginning to a solution to this problem. In light of

those standards, legislation should be enacted to ensure that personnel whose performance has been evaluated as unsatisfactory can be disciplined or removed.

The implementation of a scheme that makes it easier to shift, demote, and release managers and other employees will have to be undertaken with care. While many employees could be happier operating in new surroundings or working at a level commensurate with their competence, in other cases corrective actions could be severe blows to pride and prestige. Three elements would appear necessary to make demotion and release the solutions to performance problems.

First, managers must be given jobs to do, not positions to hold. The performance of that job to the satisfaction of senior managers must be seen as the major test for continuing to hold it. Length of service may provide a claim on continued employment but performance should be the only basis for a claim on a particular job. Clearly, however, the disciplinary actions taken by senior managers will have to be justifiable. Consequently, the regular assignment of goals and the rigorous assessment of performance will have to become a way of life. Goal-setting, performance appraisal, direct communication, and employee counselling must become integral parts of the job of deputies and other senior managers.

The second element is a placement service, organized to relocate managers deserving further consideration or a second chance. Such managers would include those whose positions are declared redundant because of reorganization or elimination of a program, who are victims of conflicts, either of personalities or management styles, or, who have performed well at lower levels before being promoted beyond their capabilities. Such a service should also be designed to help managers find employment outside the federal public service by assisting them in accurately assessing their strengths and weaknesses, determining the type and level of work for which they are most suited, obtaining suitable training, and developing an employment or career plan.

Finally, employees must be able to launch appeals without stigma or fear of reprisal. Ground rules must make it clear to all concerned that the appeals process will ensure justice and fair play in the evaluation of employees, while protecting the employer's prerogative to judge job performance.

While we have limited our investigations to senior personnel, the principles enunciated here are equally applicable to employees in bargaining groups. Parliament must give managers at all levels the tools to do the management job, to discipline or dismiss unsatisfactory performers, to correct situations where employees have been promoted beyond their level of competence, and, where necessary, to reduce staff levels so that all employees carry full and equitable work loads. We recommend that

> **12.7 Parliament enact legislation to introduce unsatisfactory performance as grounds for discipline or release, subject to the present appeals process and review by the Public Service Commission, and to simplify the process for disciplining or releasing consistently below-par performers at all levels; that**
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> **12.8 the Secretary for Personnel Management of the Board of Management delegate to deputy heads who have established acceptable performance appraisal procedures the authority to dismiss, demote, or transfer employees below the level of assistant deputy minister; and that**
>
> **12.9 the Secretary for Personnel Management operate a placement and counselling service to assist employees who have been dismissed.**

Like deputy heads, senior managers are a key resource for both the department they work in and the government as a whole. The deputy should be concerned with the development of capable managers who are knowledgeable and experienced in the operation of the department. The concern of the Secretary for Personnel Management should be to see that an outstanding cadre of senior public servants is developed for deployment across government.

At present, succession charts for approximately 1,700 senior management positions in the government are prepared each year by the Senior Executive Programs Branch of the Public Service Commission. Succession charts are based on performance assessment information provided by deputy heads. From this and other information, the Committee of Senior Officials develops lists of officers with high potential who can be considered by the Privy Council Office in proposing candidates for Governor in Council appointments, and by the Public Service Commission in making appointments under the *Public Service Employment Act*.

Deputy heads are not uniformly satisfied with the results of this system. Fifteen of the 27 deputies responding to the Questionnaire agreed that there should be better central career path planning for SXs. In part, dissatisfaction results from the rapid growth of the public service, which has blurred and diluted the criteria for entry to senior management ranks, and to the recent high number of deputy head appointments, which has accelerated the career advancement of members of the assistant deputy minister group and reduced that group's historical stability. For example, of a sample of 145 assistant deputies, 81% were in their first position at this level, and almost 50% had been appointed within the past two years.

Dissatisfaction also stems from the fact that deputy heads have not been sufficiently involved in the planning of senior managers' careers. Although they are a primary source of data for central planners, the particular needs that are supposed to be met by such a plan are not made known to them. Although deputies must employ senior managers, the results of the central planning process are not shared with them. Moreover, the existing strong central controls over organization, classification, and staffing tend to inhibit career planning within departments; deputies have had little interest in preparing development plans when they do not have the authority to implement them.

Clearly, greater attention should be directed to the career development of managers both within departments and across the government. The onus, however, should be on departments to nominate candidates for central development, because doing so will help to ensure that departments acquire sufficient depth in management talent to enable them to release their most capable managers for broader development elsewhere in the public service. We propose, therefore, that each department establish and follow a management succession and development plan. As chief administrative officer, the deputy should have a major responsiblity to ensure that managers are available for the continuing successful operation of the department. In addition, as senior members of the government management team, deputies have a responsibility to support broader government management needs. Deputies should be expected to ensure that at least one or two candidates are identified for each senior management position, including their own. The replacement candidates should include one immediate

possibility, one medium-term possibility, and, where practicable, one candidate from another department, particularly for positions in the top two levels. In addition, deputies should identify the top managers in the department who can contribute to, and benefit from, assignments in other departments, as well as those officers who are under-utilized or surplus to their department's needs. The implementation of the recommendations in this chapter would give deputies the necessary authority to implement these career development plans.

Deputies should provide the necessary information to the Secretary for Personnel Management and discuss with him plans for the development of their management teams. The Secretary in turn should provide deputies with lists of officers of high potential identified by other deputy heads. Moreover, the Secretary should convene an annual meeting of all deputies to discuss and agree upon an overall plan for managerial career development and for dealing with surplus people. Finally, the deputies' performance in developing managers' careers should be an important part of their own annual evaluations.

In summary, we recommend that

12.10 deputy heads establish and follow a management succession and career development plan that systematically identifies candidates for senior positions in the department and for promotion to other positions within the public service; that

12.11 the Secretary for Personnel Management review the departmental plans with the deputy heads and consolidate them to establish a managerial career development plan for the government as a whole; and that

12.12 the performance of deputy heads in developing managers be made an important part of the deputies' own performance evaluation.

The job of managing people is one of the most important that the deputy undertakes. Departments can be more productive and the government can achieve greater value for money spent if high standards of personnel management are established and consistently met. In order to fulfil his personnel management responsibilities, which extend well beyond the senior management group discussed

in this chapter, the deputy head needs the strong staff support of a senior personnel officer. Since the senior personnel officer's duties directly support the deputy's personal responsibilities, we commend the growing practice of according the senior personnel officer a status similar to that of the senior financial officer. Both should report directly to the deputy head and participate fully in the activities of the management committee of the department. We recommend that

> **12.13 the senior personnel officer in the department report directly to the deputy head and be a full and active member of the management committee.**

13

DEPARTMENTAL FINANCIAL ORGANIZATION AND PERSONNEL

Our inquiries revealed that financial management in most departments and agencies falls short of what is required for effective operational performance. Financial information is not used on a regular basis in the development of policy or the planning of programs. Only fragmented financial control over the use of resources is exercised. Comprehensive and effective inquiries to ensure that value for money is obtained cannot be conducted using present systems. In short, financial management does not contribute to senior departmental management decisions. These weaknesses are the consequence of a fundamental failure to comprehend the nature, purpose, and techniques of financial management at the senior levels of government. Moreover, the central agency charged with overseeing financial management has provided indifferent leadership and inadequate counsel. The development of good financial management systems has not been encouraged from either the top or the centre, and, in an environment where resources were perceived to be unlimited, there has been no challenge from within departments themselves.

In this chapter, we examine the areas where changes should be made if the financial component is to become an important and effective part of management. The shortcomings with respect to financial management that require attention lie in the knowledge and skills of operating managers, the organization of these activities in departments, and the qualifications of financial personnel.

Prior to the implementation of the Glassco recommendations, the perception of the role of financial management was determined in large part by the functions assigned to the Comptroller of the Treasury and the chief treasury officers, who were his agents, even

though they worked within departments. Since their primary function was to approve commitments, their presence was viewed as an undesirable constraint on departmental autonomy. Some major spending departments did have their own assistant deputy minister (financial) or financial adviser; these executives prepared and defended Estimates, kept track of expenditures, and maintained communication with the staff of the Comptroller of the Treasury. None played a part in broad departmental management, in planning, budgeting, or evaluation. Although the position of Comptroller of the Treasury was abolished and his treasury officers have long since been absorbed into departments, there lingers a vestige of this tradition and the attitude toward financial management that it engendered. To this day, the full potential of the senior financial officer as a member of the management team and as a participant in the planning and evaluation processes is considerably underestimated and under-utilized.

In commercial enterprises, financial management and control have long been regarded as indispensable management tools without which all but the most fortunate business will inevitably fail. Their establishment and operation are an integral part of general management and they can provide a basis for a major contribution to the decision-making process. Financial management and control involve stewardship over an organization's financial resources, but more important, they require that financial information be interpreted and applied in several ways. Financial information should assist in planning the optimum use of available resources in the context of the socio-economic environment likely to prevail during the period for which courses of future action are being charted. It should provide a basis for budgeting available resources to meet planned objectives, and provide the links in a chain that ensures total accountability for the use of these resources. It should be used to control, on a continuing basis, the implementation of plans and adherence to budgets by comparing actual performance with objectives stated in them. Finally, financial information should be used to compare revenues and expenditures, to ensure maximum economy, efficiency, and effectiveness, and to determine whether existing systems are encouraging the attainment of these objectives.

Financial management is particularly important in government which, as a trustee of public funds, must act in good faith and protect the interests of taxpayers. Government employees

must manage resources entrusted to them in the same way that a prudent person would conduct his own affairs. Furthermore, in the absence of profit incentives, there must be alternative indicators against which government performance can be measured. This can be done only if relevant, accurate, and timely financial data are available.

In pursuing our inquiries, we met few senior managers who disputed this interpretation of the role of financial management, though many were surprised by its implications, and a number confessed that they did not know what the role of financial management in government should be. One deputy minister admitted that he did not know what the functions of his newly appointed senior financial officer ought to be and had asked the latter to tell him. Another was surprised at the thought that the senior financial officer should be involved in the planning process. In one major policy-oriented department, headed by an experienced deputy minister, the senior financial officer is invited to attend management committee meetings only when financial matters are under discussion. In another department running many complex programs, some of which have been subject to questions about their financial controls, the principal financial officer is under the authority of an assistant deputy minister for corporate management, who is described as the "part-time senior financial officer".

Their qualifications on entering the public service and their subsequent government experience have not prepared most managers to understand the practical importance of financial management. Existing administrative training courses do little to bridge this gap, and the Government Expenditures Management (known as GEM) course for senior executives tends to lay a traditional emphasis on the constitutional and legal issues associated with resource allocation and expenditure without touching more than briefly on the role of the senior financial officer in a department.

If our recommendations with regard to financial management are to be successfully implemented, it is essential that senior managers be fully aware of the practical importance of financial management and of the extent to which it is an integral part of general management. If they do not, the present critical weaknesses will persist. We recommend that

13.1 staff courses, temporary secondment to the private sector, temporary assignment programs, and other career

development arrangements for senior managers be developed in such a way that they lay strong emphasis on practical explanations and demonstrations so that participants develop a better understanding of the nature and purpose of financial management in government.

Although the education of senior managers is a major step toward improving the quality of financial management, the process will take time and its effects will be gradual. More immediate improvements can be made if attention is also directed to the senior financial cadre in government. If financial personnel are to be effective, they must be aware of their appropriate role in management. Our definition of financial management requires that senior financial officers make a significant contribution to the planning, budgeting, controlling, and evaluation activities of their departments. Our research revealed that fewer than half the senior financial officers now fulfil this role. Those who do perform the role in the manner we recommend state that poor managerial attitudes, lack of parliamentary interest, a cumbersome personnel system, and the absence of effective leadership from the Financial Administration Branch of the Treasury Board Secretariat, now under the authority of the Office of the Comptroller General, make the task difficult and frustrating. Others, who do not, confess that they have come to regard these difficulties as insurmountable and have simply reverted to doing only what is requested of them.

The implementation of our recommendations to enhance accountability will necessitate improved managerial attitudes toward financial management. The recommendations relating to Parliament and its standing committees should help to revive an interest in financial management. Our proposals with respect to personnel management should facilitate the job of identifying and hiring the most suitable employees for financial positions. The recommendations concerning the responsibilities of the Comptroller General require that he and his office provide the effective direction and guidance that has been absent in the past. What remains is the need for a recognition and affirmation of the role of financial officers in management in government. We recommend that

13.2 deputies be required to manage and organize their department so as to permit senior financial officers to make a

significant contribution to their planning, budgeting, controlling, and evaluation activities.

The successful implementation of any program depends more on people than on the resources with which they are provided. Given appropriate organizational structures, adequate authority, and encouragement from a financially oriented central agency, we must ask whether financial managers in the federal government possess the requisite experience and skills to bring financial management up to the level of excellence Canadian taxpayers deserve. Our conclusion is that they do not. Our research disclosed that while 80% of financial managers have had formal accounting training, many have received no encouragement to use what they learned about costing, financial investigation, and auditing. Instead they concentrated on elementary bookkeeping, which is all the government accounting system required of them until the Glassco reforms were implemented. Since then, government-run courses have focussed on such matters as Program Forecast and Estimates preparation, and the interpretation of the *Financial Administration Act* and Treasury Board directives and guidelines. Financial managers are not required to use or keep up to date most of the skills and knowledge they acquired in their basic training.

Fewer than half the senior financial officers interviewed by our researchers stated that they participated actively in departmental planning processes, where these exist. With respect to budgeting, all were involved, to varying degrees, in the preparation and submission of Estimates. As for controlling, all those interviewed were active in ensuring that the *Financial Administration Act* and the Treasury Board's directives and guidelines were respected. Nevertheless, not one senior financial officer interviewed was able to cite any instance where he had, on his own initiative, examined a spending pattern or the cost of an activity, or sought out areas of overlap or duplication. One senior financial officer even stated that a report revealing overstaffing was the program manager's concern, not his own. Another advised that he suspected overtime abuses in his department but had done nothing to investigate them. The evaluation of activities for economy, efficiency, or effectiveness is as new and undeveloped among financial managers as it is elsewhere in the government. Not one senior financial officer interviewed had participated in this kind of evaluation.

It is with respect to their approach to controlling and evaluation that the attitudes of senior financial managers are most disappointing. They show considerable hesitancy about becoming involved in the issue of value for money; this arises, no doubt, because in raising such questions the senior financial officer can be perceived as challenging the judgement of a manager entrusted with program resources. As we pointed out, many program managers view financial officers in the same way they viewed the representatives of the former Comptroller of the Treasury, who were not permitted to comment on the wisdom of expenditure, but were restricted to ascertaining the availability of funds and ensuring that a contemplated expenditure was in accordance with Parliament's intentions as expressed in the wording of a specific vote. In recommending the transfer of control responsibilities to departmental financial managers, the Glassco Commission clearly contemplated a new role that would be of greater managerial significance than the Treasury role it replaced, and more intrusive than program managers wished it to be.

Technical skills, their utilization on the job, and even attitudes fall short of being acceptable. Of equal concern is the relative inexperience of senior financial managers. The introduction of new and expanded programs has provided so many opportunities for the promotion of financial managers, that the vast majority have but limited experience in their present posts and indeed, in their present departments. The median length of service in their present positions of the 20 senior financial officers interviewed was only 12 months. This inexperience contributes to many problems. First, it exacerbates problems associated with the mobility of deputy ministers; few departments enjoy the stability at senior management levels necessary to chart and implement plans for improving financial management. Second, an incomplete knowledge of the department's mandate and activities can place the financial manager at a substantial disadvantage with respect to operating managers with years of service in the department and an understandable resistance to change. Finally, the likelihood of promotion or transfer does not encourage financial managers to develop long-range plans that they would have to implement and live with. Instead, it encourages piecemeal and poorly planned change; it decreases the chances for improved financial management.

Closely related to the problems of high mobility and inexperience are the classification of positions and the matching of talents

to job requirements in making appointments. Job classification standards give disproportionate weight to position in the hierarchy, the number of people reporting to the incumbent, and the degree of contact with other agencies and departments. Conversely, little or no weight is attached to the extent and nature of the department's financial management problems, which can be more serious in departments with smaller budgets or in a new department. The result is that a candidate whose talents and experience are not those best suited to a job is often appointed to a senior financial management position. Furthermore, once senior financial officers have been appointed, there are no guarantees that work plans will be established and that an appraisal of their performance will take place. Only four of the 20 interviewed were able to state that they had agreed on goals and objectives with their deputy minister, and even in these cases, these goals were not used as the basis for performance evaluation.

The quality of departmental financial management, therefore, must be improved, particularly if senior financial officers are to cope with the additional duties and responsibilities that we recommend. We believe, however, that many senior financial officers are fully capable of performing these duties effectively, given an improved environment, and the example and leadership of deputy ministers and the Comptroller General. To reinforce these developments and to ensure continued improvement in the performance of senior financial officers, we recommend that

> **13.3 each senior financial officer be required annually to establish measurable goals for his personal performance, that such goals be agreed to by the deputy minister and the Comptroller General, and that his subsequent performance evaluation by the deputy be based on a measurement of achievement against these goals.**

Of equal importance is the need to ensure that, as senior financial officer positions fall vacant, the right people are appointed to fill them. In an ideal environment, the deputy minister would be expected to determine the position requirements, technical qualifications, and personal qualities necessary in a senior financial officer. Unfortunately, many deputy ministers have admitted to us that they are certain of neither the qualifications needed nor all the duties that a senior financial officer might be expected to

perform. Furthermore, mechanisms are required that would broaden the selection process, reduce mobility, increase departmental experience, and improve career planning for senior financial officers. For these reasons, the Comptroller General should make a significant contribution to the selection of new senior financial officers. We recommend that

> **13.4 for senior financial officer positions, the deputy head select a candidate from a list draw up by the Comptroller General and recommend that candidate for appointment by the Secretary for Personnel Management.**

We are satisfied that this arrangement would not represent an unnecessary intrusion since personal sensitivities and the views of deputy ministers could be given ample consideration.

Financial management is comprehensive; it cuts across all the programs and activities of all departments and agencies by contributing to planning, budgeting, controlling, and evaluation. One of the primary qualities a financial officer can bring to these activities is objectivity, because, apart from the senior personnel officer, he is the only departmental manager who has no direct responsibility for policy formulation related to a department's mandate. The senior financial officer is, therefore, ideally situated to provide objective advice and support to the deputy head. Too often in the past deputies have had to seek this advice from a central agency, placing an effective part of management outside the department.

A competent and experienced senior financial officer should be able to identify precisely all issues arising from program proposals that might have implications for other departments, central agency requirements, Government priorities, or the department's own ability to provide economic, efficient, and effective service. He should be able to contribute to solving the problems these issues raise, to weigh alternatives objectively, and to advise the deputy when a proposal, or procedure already in use, is illegal, wasteful, or inappropriate for achieving program, department, or Government objectives. Because this advice has not been available or requested within departments in the past, difficulties have been encountered in presenting program proposals to analysts in the Treasury Board Secretariat. Instead of screening proposals internally first, departments have presented their plans directly to the

central agency. We believe that this explains in part why so many deputy heads have expressed a concern that proposals are being challenged by relatively junior Treasury Board analysts whom deputies consider unqualified or inexperienced. The fault lies not so much with the central agency as with the departments that have not developed, or that have been unwilling to use, an internal capacity to provide this objective advice.

The importance of the need for objectivity is such that senior financial officers should have a responsibility, and recognized authority, to subject all proposed and existing programs to critical analysis. Such an analysis should ensure that a program or an activity corresponds to an objective or a sub-objective, and should include measuring the economy and efficiency with which programs are implemented, and ensuring that the department can assess program effectiveness. We have concluded that the role of senior financial adviser to a deputy cannot be satisfactorily filled in the federal government unless the adviser clearly has, and is seen to have, the necessary authority and responsibility. Without them, his credibility both inside and outside the department will suffer. We recommend, therefore, that

> **13.5 the senior financial officer in the department report directly to the deputy head and be a full and active member of the management committee.**

Good financial management cannot be achieved, however, simply by appointing a senior financial officer with appropriate status and prestige. More important is the establishment of a clearly defined management process requiring the participation of the senior financial officer in all major decisions affecting departmental programs and activities, whether those decisions relate to policy, administration, the deployment of people, or the use of funds. In the same way that we recommend a key role for the Comptroller General in central planning, budgeting, controlling, and evaluating, the senior financial officer should be a key participant in these processes within his department.

If he is to play this role effectively, and if the number of managers reporting to the deputy head is to be limited to those making a major contribution to the decision-making process, the senior financial officer's authority should be designed to permit him to exercise full control over the financial management func-

tion. He could also be responsible for, or have a co-ordinating role in, other activities, but only in so far as these supplementary duties do not detract from his effectiveness as senior financial officer. His ability to undertake additional duties might be determined by such factors as the size of the department, the degree of complexity of its programs, and the state of its relations with the Board of Management. Acceptance of supplementary responsibilities would provide financial officers with the additional preparation necessary for promotion to the most senior ranks of the public service.

If this is to occur, a number of departments will have to re-examine the authority and responsibilities of some of their operating managers, and of senior staff responsible for such activities as planning and administration. Both activities relate to the whole spectrum of a department's activities and require regular contact with the Board of Management through the Financial Management Secretariat.

We are concerned by the extent to which the authority of senior financial officers with respect to financial staff varies in effectiveness among departments. In any organization, an executive is described as having 'line' authority when he instructs, counsels, and appraises his subordinates in all aspects of their employment. 'Functional' control provides an executive with the same opportunity to instruct, counsel, and appraise but only in relation to his particular responsibilities. In the latter case, another executive directs the employee in relation to the other aspects of his job. In a few departments there appears to be good line control, or at least clearly defined functional control, over most financial staff. In the majority, however—and this would help to explain why financial management is so weak and ineffective—senior financial officers have incomplete line control or poor functional control over financial management staff who report directly to program managers, both at headquarters and in the regions, or to regional directors. Among the problems caused by this dilution of authority are inconsistent standards of planning, goal-setting, and performance measurement; inconsistent accounting principles, systems, and procedures that can lead to erroneous interpretations of financial data; incomplete and inefficient methods of internal accounting controls; an inability to establish a departmental plan for the equitable training, development, and promotion of all financial staff; inconsistent methods of performance appraisal, and a consequent lowering of morale; and, the inaccurate assessment of

financial staff requirements, resulting in position classifications and salary rates that are too high.

A simple solution would be to propose that all members of program and regional financial staffs report directly to senior financial officers. Such a solution would, however, be contrary to our general call for increased delegation to managers accompanied by strengthened accountability processes. Instead, we propose that in cases where unsatisfactory financial management could be attributed to poorly defined and ineffective functional control, the Board of Management be empowered to step in. We recommend that

> **13.6 the Comptroller General, if his discussions with the deputy head concerned produce no satisfactory result, be required to report to the Board of Management those instances where financial management in a department is unsatisfactory because of badly defined and/or ineffective functional authority of senior financial officers over financial staffs reporting to program or regional managers; and that**
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> **13.7 on receipt of a report of unsatisfactory financial management, the Board of Management be empowered to direct that all financial staff of the department concerned report directly to the senior financial officer for a period to be specified by the Board.**

The staff who support the senior financial officer fall into two groups; those whose duties require some formal accounting training and experience, and clerical staff, whose duties do not necessarily require a knowledge of accounting. Our inquiries have disclosed that the total number of employees in these two groups is more than sufficient to carry out present duties so that numbers should not increase as our recommendations are implemented.

There are, however, problems similar to those we outlined with respect to senior financial officers. These include high mobility, inexperience, poor attitudes, and unsatisfactory goal-setting and performance appraisal. In addition, the over-classification of positions in the FI group, the financial management occupational category, is widespread.

The FI group includes employees below the senior executive level who are involved solely in financial management. All have some accounting training or experience. The number of people in

this occupational category has grown rapidly in recent years, from 1,508 in 1974 to 2,213 in 1977, an increase of 46%. The group includes internal auditors, but does not include auditors working for the Auditor General, or those whose work involves dealing with the public; nor does the group include a number of employees who carry out duties that are primarily financial in nature, but who are classified in the administrative group.

The rapid growth of the FI group is due in large measure to over-classification. Senior financial officers and their subordinates tend to specify qualifications and experience far beyond what is really needed to get the job done in order to establish the high salary levels necessary to attract competent people. Over-classification has also accompanied decentralization; there is a common perception that all regional financial supervisors should have the same classification, regardless of the magnitude of their responsibilities. General government growth, decentralization, and the growing emphasis on financial management have also contributed to accelerated promotion within the FI group; 50% of all its members received promotions in 1974. In 1975, 29% were promoted, and in 1976, 16% were promoted.

This weakness has led to a high rate of entry from other occupational groups. Transfers from the clerical and regulatory group, whose members are not required to have financial training, amounted to 45%, 42%, and 44% of total entries to the FI group in 1974, 1975, and 1976 respectively. This excessive mobility, and the inexperience that accompanies it, could be reduced if the classification system were made more flexible and if greater emphasis were placed on the practical requirements of jobs. Only those positions that require accounting training should be classified in the FI group; all others should be placed in a new financial clerical group with salary scales that reflect the nature of the duties involved. We recommend that

13.8 the Secretary for Personnel Management of the Board of Management revise the classification benchmarks for financial and clerical positions to ensure that only those positions requiring formal accounting training are placed in the FI group; and that he ensure that all FI position descriptions accurately reflect the skills and duties required of the incumbent.

A number of initiatives have been taken recently to foster professional development in the financial community of the public service. Chief among these was the creation of a division within the Financial Administration Branch of the Treasury Board Secretariat responsible for professional development. As a result of negotiations with the division, the Certified General Accountants Association of Canada (CGA) and the Society of Management Accountants (SMA) have modified their training curricula to better suit the needs of candidates who wish to enter the public service. Little has been done, however, toward establishing a recognized certificate, diploma, or degree in public financial management from an independent educational institution. There appears to be little demand for this alternative because the amended CGA/SMA courses already exist, many private sector organizations recognize and require CGA and SMA qualifications, and a specialized degree would not be attractive to people who wish to keep their options for future employment open.

A further development is the establishment of courses in financial management at introductory, general, and advanced levels by the Public Service Commission. These have attracted substantial interest; in 1978 there was a 40% increase in the number of applicants to the courses. We have also been told that FIs participate in more training in non-specialized areas than do the members of any other group. The PSC courses do, however, leave something to be desired. First, they reinforce the outdated attitudes toward financial management so pervasive in the public service by concentrating on the *Financial Administration Act* and regulations, the Treasury Board "Guide on Financial Administration", and account verification, all of which emphasize procedural rectitude. While these elements are necessary to ensure a high level of probity, they do little to advance participation in departmental management. At the same time, they offer no instruction in key specialized fields such as systems, payroll administration, or financial analysis. Furthermore, course participants are not examined or graded on what they have learned. Courses are not passed or failed; regular attendance alone permits a participant to add the course to his credentials. We recommend that

> **13.9 the Secretary for Personnel Management of the Board of Management work closely with the Comptroller General to develop courses that meet both modern standards and finan-**

cial management requirements in the federal government, and that satisfactory completion of such courses be appropriately tested and recognized.

The implementation of these recommendations will not achieve an instant transformation of the government's financial cadre. Nevertheless, with strong support from the centre and with a better appreciation of the importance and potential uses of financial management, deputy heads and senior managers will be able to fulfil their crucial role. They will, however, require appropriate tools to do their jobs; it is to these that we now turn.

14

ACCOUNTING AND AUDITING

In previous chapters, we have made recommendations calling on departments and agencies to provide relevant and accurate financial information in support of both plans and results, so that chief administrative officers can be held fully accountable for the activities of their departments. We have recommended reorganized management structures to facilitate the use of this information and have emphasized the need for appropriate financial training. Given these improvements, two important changes remain to be made. The methods for assembling and presenting financial data must be modified before senior financial officers can assume the role we recommend for them. In addition, internal audit systems must be improved so that departmental managers will know when things are going wrong and how to put them right. The problems we treat in this chapter can be traced to the incomplete implementation of recommendations made by the Glassco Commission. While responsibility for financial management was transferred from the centre to departments, control of the tools needed to make it effective was not.

Accounting

Methods The hodge-podge of accounting methods used in assembling the financial statements of the Government of Canada and the accounts of departments and many agencies defeats the four principal purposes for which financial information about governments, and other non-commercial organizations, is required. These

purposes were defined by the Financial Accounting Standards Board of the United States in May 1978, in its *Research Report on Financial Accounting in Nonbusiness Organizations,* as follows:

- *Cost of services provided* "In most organizations the amount of spending for various programs is important information to users. Citizens are interested in how much their government spends for recreational facilities as compared with roads"
- *Management performance* "Management's responsibility is greater than merely complying with the rules. Management is fundamentally responsible for spending money wisely. Thus, users are interested in how well the money was spent, to the extent that accounting can shed light on this"
- *Fiscal compliance* "The Management of a nonbusiness organization ordinarily must comply with a number of spending mandates, such as budgetary constraints in government. Users want assurance that these mandates have been complied with and that resources have been used for the intended purpose" and,
- *Financial viability* "Information that indicates the organization's ability to continue to provide the services for which it exists".

Accounting methods used in departments and in most agencies result in both inaccurate estimates of the cost of implementing a proposal and inaccurate reports of the costs of carrying out the activity. In addition, these program costs cannot be reliably compared on a periodic basis with the relevant benefits or outputs. These two shortcomings have a significant influence on efforts to obtain value for money by running government programs economically, efficiently, and effectively. They also frustrate attempts to achieve satisfactory assessments of management performance.

Deficiencies in accounting systems and methods are the reason for inaccurate cost estimates. There is no comprehensive and consistent system to ensure that all costs incurred by one department on behalf of another are promptly and accurately identified and then charged to the second department. For example, the Department of Supply and Services charges other departments for the approximate cost of procuring supplies and services on their behalf, and for DSS management consulting and auditing

services, but DSS makes no charge for accounting, payroll, and cheque issue services rendered to all departments, although their costs are substantial. The Department of Public Works reports the cost of leased accommodation provided to departments but does not charge departments for the use of Crown-owned buildings. Nor do systems make sufficient allowance for substantial costs in excess of basic salaries; these arise from such fringe benefits as vacation pay, termination benefits, and government contributions to health insurance and pension plans.

A further anomaly of government accounting systems is that costs are charged to programs with little regard to when the costs actually contributed to program output. For example, the cost of equipment and supplies is charged to programs at the time they are paid for, not when they are used. Thus, the price of an expensive piece of machinery acquired to reduce labour costs is charged to a program before the equipment is brought into service, instead of being charged to the program over the useful life of the machine. Furthermore, costing systems make no allowance for the use of money; if, for example, government procured supplies at off-season discount prices and stored them for many months, there is no means of determining whether resulting savings are offset by extra interest charged on money borrowed to accommodate the early purchase.

Furthermore, departmental accounting systems fail to provide reliable calculations of the cost of personnel and financial administration and other overhead costs. For example, we were unable to assemble sufficient data on which to base a reliable estimate of the total cost of all internal audit activities within the government. Without satisfactory costing systems, departments are unable to make wise decisions regarding the use of the resources with which they are entrusted. Among the fundamental decisions that would benefit from the existence of satisfactory costing systems are the following:

- whether government should undertake a project internally or contract it out to the private sector
- what charges should be made to provincial governments and others for services
- how well government performance compares with that in other jurisdictions or in the private sector

- when, and in what amounts, accommodation, equipment, and supplies should be acquired

The information on which to base answers to these questions can be obtained through an accounting system, but only if the system first captures all costs on an accurate and timely basis and second has integrated with it a satisfactory costing system for analyzing the data thus obtained. Cost estimates require ready access to reliable historical data; neither the proposals containing these estimates nor subsequent evaluations can be based on fragmented information assembled and analyzed on an ad hoc basis.

Some tentative steps have been taken toward establishing accurate costing in government departments. The evidence that this can be done is found in the accounting systems used for the revolving funds to which we referred in Chapter 6. Because these funds are intended to be wholly dependent on their revenues, and not on annual appropriations, all expenditures relating to the activities financed by the funds are charged to them. The cost of equipment and supplies is charged as they are used, not when they are purchased. Thus, the cost of labour-saving machinery would be charged against the program throughout the period during which the labour-saving benefits were realized.

Armed with comprehensive and accurate cost information, responsibility centre managers can confidently prepare periodic cost statements for activities and compare program outputs with the cost of producing them. In such circumstances, employees respond by performing their tasks economically and efficiently. They have the information they need to ensure that their programs are effective. Accounting systems used for revolving funds supply information that meets the purposes we cited earlier in this chapter and encourage improved financial management. For example, the Auditor General commented in his 1978 report on the efficiency of the Passport Office, which has reliable information available to tell Parliament and the taxpayer that the cost of issuing passports and other appropriate travel documents to Canadian citizens in the fiscal year ended March 31, 1978 was $8,685,364. The same cannot be said for most services provided by the government.

As a general rule, the managers of revolving funds are able to cost their activities fully and accurately. We have been unable to find a convincing reason why the same should not be true else-

where in departments and agencies. The recommendations of the Glassco Commission and the Treasury Board Secretariat's own *Study of the Accounts of Canada* in 1975 both emphasized the need for cost-based accounting. Yet neither the Financial Administration Branch of the Treasury Board Secretariat nor departmental managers took any serious steps to achieve it. The introduction of a proper cost-based accounting system is not a complicated task; nor should it cause additional expense since it should enable departments to dispense with commitment controls that are, at best, incompletely exercised anyway. The benefits of introducing cost accounting would include a dramatic improvement in the information base on which to assess proposals and measure subsequent performance. It would thus contribute greatly to reducing inefficiencies and waste. We recommend that

> **14.1 comprehensive cost-based accounting systems be developed and used in all federal departments and agencies, and that these systems meet the criteria of capturing all costs on a timely and accurate basis and be integrated with costing systems capable of analyzing the data thus obtained.**

Another weakness of departmental accounting systems, and one not shared by revolving funds, is that they do not provide independent financial control over the non-cash assets in the department's custody. There is no independent assurance that equipment and supplies are purchased and delivered when and where they are required, that they are bought in economical quantities, that they are used for the purposes intended, or that they have not become redundant or obsolete. In the private sector, such controls have been part of integrated management systems for decades. They permit an accurate determination, in financial terms, of the value of goods purchased and used to accomplish objectives, or stored, destroyed, or lost. They supply an automatic, independent, internal check over purchasing agents, stores managers, and production employees. They provide the information needed to establish insurance claims, and to calculate the taxable income of an enterprise on a consistent and acceptable basis.

Because of their need to match costs with revenue accurately, revolving fund managers have set up financial controls over non-cash assets that should detect abnormal transactions automatically. While the responsibility for safeguarding equipment and sup-

plies is now normally held by matériel management personnel, control over these valuable assets should also be exercised independently by financial officers through departmental accounting systems. We recommend that

> **14.2 accounting systems in departments and agencies incorporate independent financial control over all non-cash assets, and particularly over fixed assets and inventories.**

Policies and Practices An account is a statement made about money held in trust and should provide, in financial terms, a report of the trustee's conduct. On the basis of the account, the trust can be renewed or, if there has been abuse, the trustee dismissed. In either case, the decision must be based on accounts drawn up in accordance with principles that are either generally accepted or, at the very least, mutually agreed upon before hand. If an auditor is relied on to provide an assurance that the account is properly drawn up, that auditor should have some standard against which to judge the practices in question. Many of the government accounts submitted to Parliament have been prepared using practices that are not generally accepted. Furthermore, some of these practices are not even conceptually justifiable in the circumstances. While the Auditor General has repeatedly drawn attention to a number of unacceptable accounting practices, we have concluded that unless firm action is taken by Parliament, the accounts it receives will continue to lack integrity, to be complicated rather than straightforward, and to be presented in a manner inconsistent from one year to the next.

With regard to the Financial Statements of the Government of Canada, the Auditor General expressed serious reservations concerning the accounting practices used to draw up the accounts for the year ended March 31, 1978. In consequence, he was unable to state, as he is required to do under Section 6 of the *Auditor General Act*, that these statements were presented fairly. Net recorded assets shown in the statement of assets and liabilities totalled $40.4 billion. If the government's stated accounting practices had been followed, the amount of these assets would have been reduced by at least $3.1 billion, comprising assets that do not represent realizable financial claims. They would be reduced by a further undetermined amount if the value of loans and investments to some Crown corporations, where these represent items such as capital expenditures, had been charged to budgetary expenditures,

as they should be under the government's stated accounting policies. In addition, inadequate allowance had been made for the possibility that some of the $3.8 billion loaned by the government would not be repaid. These reservations are so serious that they raise the question of whether the budgetary deficit of $10 billion for the year ended March 31, 1978, and the accumulated budgetary deficit of $39.6 billion at that date are any more than rough approximations.

The financial statements of the Government of Canada contain financial information about some government entities but not others; what is included depends on the way that divisions, branches, agencies, and corporations are classified under the schedules to the *Financial Administration Act*. The Auditor General has commented on the inappropriateness of this criterion for inclusion; the implementation of our recommendations regarding the classification of departments and agencies should eliminate this concern. The criterion also has a significant effect on the budgetary surplus or deficit, and because of the accounting policies and practices employed in the calculation of the surplus or deficit, on the calculation of revenues generated and expenditures incurred by the individual departments and agencies.

The budgetary revenues and expenditures set out in the financial statements include some items of revenue and expenditure but not others. Furthermore, they include items that are particular to the government. Similarly, assets and liabilities have their own special definition. Assets are defined as the financial claims acquired by the Government of Canada on outside organizations and individuals as a result of events and transactions prior to the accounting date. Liabilities are defined as financial obligations to outside organizations and individuals as a result of events and transactions prior to the accounting date.

As a result of government accounting policies and practices, however, and in accordance with the provisions of the *Financial Administration Act*, some financial claims and obligations are not reported in the annual statement of assets and liabilities. The most important financial claims not reported are the accounts receivable for both tax and non-tax revenue. Financial obligations not reported include accounts payable for goods and services received in the year but not paid within 30 days from the end of the year; accounts payable related to statutory appropriations; accrued liabilities for some retroactive salary and wage settlements, for

unpaid overtime, annual vacation and unused sick leave, and for benefits payable upon termination of employment; and actuarial liabilities arising from the indexing to the cost of living of pensions and annuities.† The statement of assets and liabilities does include, however, the balances of some accounts internal to the government; these will continue to be reported until parliamentary authority to delete them from the accounts of Canada has been obtained.

The Financial Statements of the Government of Canada appear to be straightforward, but in fact they must be read in conjunction with a long list of notes and observations, detailing explanations, exceptions, and inconsistencies. Even with this supplementary information, it would be difficult for anyone but a skilled accountant familiar with the organization of government to determine the exact amount of the budgetary deficit. This is a far cry from the private sector where the law demands a high standard of accounting. In the private sector, over a period of about one hundred years, the accounting profession and business have, at government urging, developed a series of accounting principles used in the preparation and presentation of financial information. These principles are intended to ensure that financial information presents a view of operations, expressed in financial terms, that is consistent from year to year, and that is as true and fair as can reasonably be established. These generally accepted accounting principles have been adopted in many countries of the world, with accepted variations to meet the peculiarities of the industry concerned, or circumstances such as high rates of inflation. In most countries, the adoption of these principles is required to comply with national legislation concerning limited liability and the requirements of stock exchanges and regulatory bodies. These principles are usually the basis for calculating taxable income for corporations of all sizes. We believe that the principles applied to the accounts of government, the largest trustee of all, should be no different. Government should use accounting principles and practices that are generally accepted or, if unique, justified by the special circumstances within which it operates.

Since the government as a whole fails to deal with its financial statements as it should, it is not surprising that a number of individual departments and agencies follow suit and present their

† From *Public Accounts of Canada*. 1978, V.1, p. 2.10.

accounts in a similarly casual manner. The financial statements of 50 boards, agencies, funds, and corporations shown in the Public Accounts at March 31, 1978, were prepared following generally accepted accounting principles and audited by the Auditor General. He was able to state without reservation or exception that these principles had been consistently applied in preparing the accounts of only 22 of these organizations.

Some of the deficiencies in the accounts of Canada were recognized in a study carried out by the Treasury Board Secretariat in 1975. This *Study of the Accounts of Canada* made a series of recommendations that would have gone part way to restoring integrity to the accounts, had they been implemented. Action has been forthcoming, however, on only a few. In the same way that there has been no central direction to encourage the appropriate use of generally accepted accounting principles, there has been no driving force to ensure that accounting policies and practices were changed to take account of the report's recommendations. The attitude this reveals influences financial management across government and is, in part, responsible for the inaccurate and inadequate costing information we described earlier in this chapter.

We believe that the problem of government accounting policies and practices in Canada today is urgent, but it is not peculiar to Canada. In the United Kingdom there has recently been severe criticism of accounting standards at the municipal level. In the wake of the New York and other municipal funding crises, the United States Securities and Exchange Commission and the American Institute of Certified Public Accountants have focussed on the essence of the problem by asking why generally accepted accounting principles are not, by their very definition, acceptable to non-business organizations, including governments. The Canadian Institute of Chartered Accountants, on its own initiative, set up a Task Force on Government Accounting in 1975 to determine whether accounting and reporting standards for the governments of Canada and the provinces should be established. The Task Force concluded that they should, and recommended that, as a first step, a study group be created to catalogue the existing practices with respect to legislative accounting, financial reporting, and auditing, and to review the objectives and concepts underlying them. A study group was set up to consider the possible objectives of governmental reporting and auditing and to identify the main

issues for future consideration. The group was to include the following topics in its study:

1) Form and nature of appropriation authorities.
2) Accounting entity covered by summary financial statements of governments.
3) Manner of reporting on accounting entities controlled by or owned by governments and not incorporated in their summary financial statements.
4) Manner of reporting on government assets and liabilities, including such matters as:
   - cash, including funds in transit
   - investments in or advances to government controlled organizations
   - advances to other governments
   - accounts receivable, inventories and other similar assets
   - fixed assets
   - accounts payable
   - deferred charges and accrued expenses
   - assets and liabilities expressed in foreign currencies
   - unmatured debt
   - contingent assets and liabilities
   - the excess of liabilities over assets.
5) Manner of summary reporting on government receipts and disbursements.
6) Manner of summary reporting on results for the fiscal year, including such matters as:
   - cut-off of revenues and expenditures
   - treatment of inter- and intra-governmental transactions
   - consistency between fiscal years
   - consistency between actual and authorized amounts
   - treatment of non-recurring or prior year's transactions.
7) Manner of reporting on revenues, expenditures, assets and liabilities and other matters related to the detailed disclosure of specific financial transactions or groups of financial transactions.
8) Auditing practices including:
   - form of short-form report, including qualifications and disclaimers
   - materiality as it affects audit reports
   - field work
   - independence.

We believe that the study together with our own recommendations could launch a process that would result in accounting standards that would be recognized and accepted by the federal and provincial governments. We feel, however, that governments must commit themselves to establishing these standards and should now take the lead. The next stage in the study should be conducted, not by the Canadian Institute of Chartered Accountants, but by a joint task force set up by the federal and provincial governments. This task force should include accountants and auditors from both levels of government as well as members of the professional, business, and academic communities noted for special accounting skills and competence. We believe that such a task force, supported by qualified staff, should be able to report within three years. We recommend that

> **14.3 the federal government take the lead in setting up a joint task force with the provincial governments to determine the accounting standards that should be recognized, accepted, and used in the presentation of government financial information.**

We would expect the Comptroller General to ensure that the federal government provided a high level of support for the task force, and to be responsible for the follow-up.

Systems In order for transactions to be recorded in the central accounting system of the Government of Canada they must reflect payments from, or deposits to, the Consolidated Revenue Fund. The minister responsible for this Fund is the Receiver General. His duties are at present performed by the Minister of Supply and Services. As a result, responsibility for issuing cheques and depositing cash, and for the central accounts of Canada are centralized in the Department of Supply and Services. As payment and deposit documents are processed, the department records on them other information identifying the department, region, program, or other cost centre concerned with the transaction, and the nature of the expenditure. Daily, weekly, monthly, and annual summaries of all transactions are prepared. These permit the Receiver General to fulfil his responsibilities relating to the operation of the Consolidated Revenue Fund, the provision of the information they require to the Bank of Canada and the Department of Finance, and to inform departments of the status of their various appropria-

tion accounts. There is no major shortcoming in this aspect of the system. The system does, however, fail to provide the relevant, accurate, and timely financial information essential to the management of departments and agencies. Our investigations indicate that no department is fully satisfied that it is provided the information it requires in a useful format, despite the extensive use of computer systems that should make this both practical and economic. Furthermore, departmental managers do not believe that the Department of Supply and Services will ever satisfy departmental financial management requirements.

There is a reason for this. The Department of Supply and Services has developed a government-wide accounting system designed to meet the requirements of its Minister as Receiver General, and this takes priority, ahead of the needs of departments and agencies. The system, therefore, is designed to meet requirements of the centre and not those of many departments and agencies conducting diverse activities in many locations. This has implications for the accounts used by departments.

With few exceptions, all payments by the Government of Canada are made in the form of over 120 million cheques issued annually by the Receiver General from the Ottawa headquarters of the Department of Supply and Services or from its regional offices. Cheques are issued by the Receiver General on the request of the various departments. Departmental authorizing signatures are checked for authenticity on a random sample basis; however, the Department of Supply and Services usually does not have on hand a fully up-to-date list of such authorizing signatures, nor does it ensure sufficient funds are available in appropriations before cheques are issued. Documents supporting requests for payment are filed and later stored in the Public Archives on behalf of the Receiver General. Nevertheless, to cope with the vagaries of the system, some departments maintain their own accounting records and one or more copies of all the supporting documents. These copies help to provide key information that cannot otherwise be obtained quickly. There are no estimates of the costs that this complicated process of duplication generates, but obviously they must be substantial. Given that this dual system does not even provide comprehensive information on the balance of unexpended appropriations or systematic verification of the authenticity of cheque requests, we question its value.

Notwithstanding the creation of the Department of Supply and Services and its central accounting system, and the hope that future generations of computers would enable that system to meet the needs of all, it is doubtful that a single accounting system could meet that requirements of both the government and its individual departments and agencies. This observation is borne out by the substantial number of departments in which senior managers have, partly out of frustration, created partial internal accounting systems, though this development has been actively discouraged by the central agencies on the grounds that it leads to duplication and unnecessary expense.

What has not been explored in depth is the concept of encouraging all departments to maintain their own accounting records and to provide the necessary information to the Receiver General as a product of their own systems. This would place the onus for producing accurate and timely information on departments, where it is needed, and still permit the exercise of central control. It would also be akin to the methods used by most large corporations where financial data are fed upwards from the lowest levels of responsibility to corporate management, with each higher level using only that information pertinent to its own requirements.

Departmental accounting systems would not conflict with our recommendations in Chapter 7 giving the Comptroller General responsibility for the central accounting system and the preparation of the Public Accounts of Canada. We would require that he assess departmental systems with respect to their ability to meet government-wide requirements and departmental needs. We recommend that

> **14.4 departments be fully responsible for the design and upkeep of their own accounting systems; that**
>
> **14.5 departmental accounting systems be designed to provide the information required by central agencies accurately and promptly; and that**
>
> **14.6 departmental accounting systems, and any subsequent changes therein, be formally approved by the Comptroller General before being brought into use.**

All departments need not have their own bookkeeping machines or computers. Departments must design accounting systems that will provide the information they need in the form and at the time they

require it. Whether the systems are operated by the departments or by a service agency, possibly the Department of Supply and Services, is a matter of economy and efficiency to be decided internally by departmental management. One of the considerations in this decision must be whether the financial staff possesses the technical competence necessary to fulfil this additional responsibility economically and efficiently.

Payroll Systems

The 120 million cheques issued annually by the Receiver General include salary cheques for about 330,000 government employees. The Auditor General's last four reports referred to the weaknesses in controls over payrolls in both the central pay system and in departments, and other concerns have been raised with respect to personnel management and industrial relations. The question is whether so large a system can be managed so as to give satisfaction to so many managers and employees conducting diverse activities in many widely separated locations.

Many of the shortcomings were addressed in a Treasury Board circular on pay administration issued in July 1977. This circular clearly established that the responsibility for pay administration rests with individual departments and that the role of the Department of Supply and Services is one of service. It recognized the limits of the present computer system and the need for improved responsiveness to departmental and employee requirements. If the course charted in the circular is followed, if departments and agencies acquit themselves of their responsibilities, and if the Department of Supply and Services does provide the services required, the problems we identify will gradually diminish in number. If this does not occur, another remedy must be found. In this event, the Government might wish to consider making major labour-intensive departments responsible for their own payroll systems.

Internal Audit

The most visible audit in government is the Auditor General's. His reports have focussed parliamentary and public attention on

major inadequacies of financial management and contained excellent suggestions for improvement. The *Auditor General Act* of 1977 clarified existing duties with respect to the legality, probity, and prudence of expenditures, and expanded the role of the Office. The Auditor General's additional reporting obligations now include cases where, in the words of Section 7 of the Act, "money has been expended without due regard to economy or efficiency; or satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented."

The Auditor General's reports represent only a fraction of total audit activity and can cover only a small portion of all government programs. The audit of the remainder, and the follow-up to it, should be a part of internal departmental management. The cost of auditing government programs is enormous. So broad is the range of these activities that we have not been able to determine their total cost with any degree of accuracy, although estimates in the $50 to $60 million range provide a reasonable approximation. We would not dispute the necessity of spending these amounts if the services provided met the highest standards of economy, efficiency, and effectiveness. They do not.

Auditing within government falls into two major categories, central agency compliance audits and departmental and agency internal audits. Central agencies conduct a series of audits to ensure that the regulations and procedures they have laid down are being complied with by the departments and agencies. The extent and standards of internal audit vary considerably from one department to another, depending in large measure on whether departmental management views internal audit as a management tool or simply as something imposed by the centre or by the Auditor General. Where the latter view is held, internal auditing consists largely of the verification of the arithmetical accuracy and the legality of payments. It amounts to no more than a mechanical check by one group of people on detailed transactions recorded by another group. The results of such audits are rarely of use to senior management. In only a few departments does internal audit go beyond these limits to include some aspects of operational auditing, such as the assessment of the economy and efficiency with which programs are being conducted, an examination of the validity of performance indicators, and the review of compliance with administrative procedures. Departmental internal audit

groups tend to establish their own standards and, in the absence of direction from senior departmental managers, determine the nature and scope of their own audit programs. Some departments contract with the Audit Services Bureau of the Department of Supply and Services to conduct their internal audit. In such cases, the Bureau has tended to set its own standards, acting in much the same way as an independent external auditor would.

There is a lack of co-ordination of these various central and internal audits, with the result that the same activities are audited at different times for different purposes. An activity could be subjected in one year to audit by as many as five different groups: its own internal departmental auditors or a team from the Audit Services Bureau; the Public Service Commission Audit Branch; and three divisions of the Treasury Board, the Office of the Comptroller General, the Administrative Policy Branch, and the Personnel Policy Branch. The result is that the time of many deputy heads and other senior managers is overburdened by the need to respond to these auditors. The absence of co-ordination in the initiation and conduct of audits also has other implications. The effect of weaknesses found by one group on a program or activity being audited by another is rarely examined. Audit reports are received at different times and at different levels in departments. Action based on these reports is not co-ordinated.

As the first step toward improving the effectiveness of internal audit we believe that existing audits should be consolidated. Because internal audit must be a management tool, the expanded audit responsibility resulting from this consolidation should be located within departments and agencies. Furthermore, we believe that the internal audit staff of the Audit Services Bureau should be transferred to those departments and agencies whose audit staff is insufficient at present. We recommend that

> **14.7 the internal audit responsibility of departments and agencies be based on a comprehensive approach to all financial, operational, and management auditing, and that it therefore cover adherence to all centrally-prescribed financial, personnel, official languages, data processing, and other administrative policies and procedures, as well as the economy, efficiency, and effectiveness with which resources are used.**

A further reason for the ineffectiveness of internal audit is that direction of the activity has been inadequate. In some departments, the internal auditor reports to a senior financial officer, in others to one or more senior committees. While audit programs have not been comprehensive, their scope has been subject to the influence of program managers; in particular, auditors have been asked to solve problems relating to systems and procedures not related to their normal duties. Audit standards have not been established and monitored by departments, nor have reports received the follow-up attention they merit. If the responsibilities of auditors are to be broadened as we recommend, comprehensive programs must be approved before they are launched, standards of audit must be monitored, and the observations, weaknesses, and recommendations contained in audit reports must be reviewed and followed up. The best vehicle for carrying out these tasks is the *Audit Committee*.

Recent amendments to Canadian corporate law require that most large companies establish audit committees of their boards of directors. Among its other tasks, an audit committee works closely with the company's internal auditor as well as with the independent external auditor in a number of areas. The committee reviews and approves the standards, scope, and timing of the audit program. It reviews audit findings and recommendations along with the views of those concerned, and appraises the quality and effectiveness of the audit techniques used. The committee reports periodically on its work to the board of directors. Usually, the committee can approach its work with a degree of objectivity because the majority of its members are directors who have no responsibilities for the day-to-day operations of the company. In addition, these outside directors bring with them a wealth of experience and knowledge applicable to the problems revealed and the solutions proposed in audit reports.

We believe that carefully chosen audit committees would provide a useful stimulus to the improvement of management practices in the public service, particularly if internal auditors are given the increased responsibilities we have recommended. Central management could cede these responsibilities in the knowledge that audit activity was being monitored by an objective observer.

While many government departments and agencies already have audit committees, their members do not have the qualities of objectivity and external experience; most audit committees are

simply sub-committees of the departmental management committee. Even senior executives from other departments or agencies could not provide these qualities, since management styles across government tend to be similar. Moreover, some government-wide problems are too readily accepted as insoluble, and the sense of community among senior public servants could inhibit frank criticism. These considerations did not receive sufficiently careful examination by the Treasury Board in its recent publication "Standards for Internal Financial Audit".

To meet these objectives, and to respond to the need for objectivity and varied experience, departmental audit committees should include representatives of the senior ranks of the Canadian business community. This proposal would also respond to the need to enhance mutual understanding between business leaders and senior public servants. Since audit committees would meet only four or five times a year we do not believe that the demands of time would constitute a major obstacle to finding the right people to serve on the committees. Indeed, we believe that major Canadian corporations would welcome the opportunity to have their senior officers participate in a forum where they could make a valuable contribution.

In the private sector an audit committee would normally be chaired by a director without other corporate responsibilities. We believe, however, that departmental audit committees should be chaired by the deputy minister. Committees should be small enough for efficiency and effectiveness, but large enough to allow for a comprehensive review of issues. A committee of three or four members, two of whom are outsiders, would meet these requirements. The fourth member could be drawn from the public service, either from the department itself or from another unit of government. All appointments to these committees from outside government should be made by the Governor in Council on the recommendation of the President of the Board of Management after consultation with the minister and the deputy minister. Appointments should be for a term of three years, with the possibility of re-appointment for a further three years. Modest honoraria and expenses should be paid to those from outside government for each meeting attended. Appointees should be briefed by the deputy head prior to taking up their duties to introduce them to the activities of the department.

While chief internal auditors should submit their reports to the audit committee through the deputy minister and should attend its meetings as required, they also should be free to raise issues with individual committee members. Careful minutes should be kept of all meetings and submitted to the minister. Copies should also be sent to the Comptroller General and the Auditor General. We recommend that

> **14.8** ***Audit Committees*** **be formally created in all departments and that they comprise at least the deputy head and two members from the ranks of senior executives of major corporations and organizations in the private sector.**

Apart from the introduction of an outside perspective on audit activities, the additional responsibilities we recommend will place internal auditors under increased pressure from central agencies, departmental program managers, and the Auditor General. The quality and scope of their work must, therefore, correspond to some prescribed standard and their adherence to this standard must be regularly monitored by someone qualified to do so. The establishment of standards and the assessment of technical performance should be the responsibility of the Comptroller General who should also review all departmental audit committee reports. He must verify that financial systems and procedures are in place to ensure maximum economy, efficiency, and effectiveness in government, and he must be confident that satisfactory audit procedures are monitoring the operation of these systems. Recommendations concerning the Comptroller General's role in watching over departmental and agency audit activities were made in Chapter 7.

Consolidating internal audit, introducing minimum audit standards, and establishing audit committees would enhance the accountability of deputy heads. Internal audit is a management tool to which accountable managers must have ready access at all times. While audit committees would ensure that audits are correctly conducted and that reports are followed up, the everyday direction and guidance of internal auditors must remain the responsibility of deputy heads.

PART IV

CROWN AGENCIES

15

THE ISSUE OF CLASSIFICATION AND ACCOUNTABILITY

One of the distinguishing features of government at the federal level in Canada is the large number of policies and programs that are administered by a wide variety of non-departmental bodies which our mandate refers to as "Crown agencies" and which are set apart from the conventional departments.

The extensive resort to Crown agencies is a legitimate response by government to the problem of developing alternative instrumentalities to cope with the demands imposed by the assumption of new roles that require independent sources of policy advice, regulation of important sectors of the economy, objective determination of rights, and outright government ownership and operation of numerous business-like undertakings. Crown agencies serve a necessary and useful purpose in lightening the burdens on ministers caused by the growth of programs and added responsibilities within conventional departments. The pervasiveness of these non-departmental hybrids has compounded the confusion with respect to the management and accountability problems that we have considered in dealing with regular departments.

The number and variety of functions as well as organizational models that characterize Crown agencies pose two major issues. The first is the identification and classification of Crown agencies. The second is the clarification and rationalization of the arm's length relationships of Crown agencies with Government and Parliament. This effort is necessary in order to establish appropriate accountability for management and for the implementation of public policy in accordance with mandates.

The Problem of Identification and Classification

In our Progress Report, in a preliminary effort to identify Crown agencies, we suggested that they were a group of entities that have a different relationship to government and a different form of accountability than the conventional department. This formula for distinguishing Crown agencies from departments constitutes only a starting point for the task of identification. A number of supposed Crown agencies, under the existing framework for management and accountability, do not differ significantly from departments in their relations with Parliament and the Government. Many are now categorized as "branches designated as departments" or as "departmental corporations" and some we propose leaving in the departmental category. However, there are many with unique tasks that warrant a special arm's length relationship to Government that requires their assignment to a new category, *Independent Deciding and Advisory Bodies*. At the opposite pole from departments there is another group of Crown agencies whose relationships with the Government differ little from those maintained by organizations in the private domain. These we classify as *Shared Enterprises*. Finally, there is a group of wholly-owned governmental undertakings which we assign to the category *Crown Corporations*.

We attach much importance to the issue of identifying Crown agencies for, unless we understand the basis for resorting to non-departmental entities, we cannot properly undertake their classification. Lacking clear categories, both Parliament and the Government will flounder in trying to fulfil their responsibilities for ensuring the accountability of those agencies as organs of public purpose.

In the re-ordering of Crown agencies that we undertake in the next chapter there are at least five criteria which, in varying combinations, we believe must be invoked to distinguish the essential qualities of a Crown agency from a conventional department or from an organization in the private sector. One distinguishing criterion is the **nature of the task** to be performed—a criterion that becomes important in distinguishing one category of Crown agency from another. **Ownership**, as a second criterion, is helpful but not altogether conclusive in distinguishing Crown agencies from private bodies. The same applies to a third indicator, the

source of funds. Fourth, while their **organizational forms** vary, Crown agencies have one common structural feature—collegiality, which distinguishes Crown agencies from hierarchical ministerial departments. Finally, **delegation and autonomy** are the concepts most crucial to distinguishing a Crown agency from a department and, in turn, differentiating one type of Crown agency from another.

Thus, by invoking the criteria of delegation and autonomy, we define Crown agencies in the following terms:

> Crown agencies are distinct entities established as instruments of public policy that have been directly delegated by Parliament, the Government, or another Crown agency specified continuing responsibilities and decision-making powers that assure them a degree of autonomy from Parliament and the Government in the pursuit of their tasks.

From this definition it follows that the accountability of Crown agencies differs from that of departments because the tasks are directly assigned to the agencies and not to ministers of the Crown, who must account to Parliament for the exercise of continuing responsibilities and managerial powers.

In the next chapter we elaborate this definition in order to display the extraordinary number and variety of governmental entities radiating from the departmental system at the core to outer fringes, where public and private organizations meet and blend into a grey area where perceptions of distinctions may require the aptitude of a clairvoyant. Building on this detailed analysis we propose to amplify and clarify the classification system now in force.

The extensive and increasing resort to Crown agencies has revealed serious deficiencies in the system which, if left unattended, will only add to the existing state of confusion concerning the status and accountability of the large number of Crown agencies now comprising virtually a second public service.

The Problem of Accountability

While the re-ordering of Crown agencies which we undertake in the next chapter is desirable and overdue, it is for us a necessary

basis upon which to establish the appropriate degrees of autonomy for, and to clarify the policy and management relationships of, Crown agencies with the Government and Parliament. Without such re-ordering, accountability cannot be complete or fully understood and accepted by all who are involved.

The present framework within which Crown agencies are managed and held accountable has evolved slowly over the years, punctuated occasionally by efforts to classify these agencies in general terms so as to cover their relationships with Parliament and the Government. We describe the major elements of this framework in a subsequent chapter, but our conclusions are that the framework is not sufficiently comprehensive to embrace either many of the recent additions to the list or many of the variants of the Crown agency form; that for those agencies it does cover its application has been inconsistent; and, that the régimes of accountability are tied primarily to financial management arrangements, while larger issues of accountability to Parliament for mandate, and to the Government for policy, have not been adequately covered.

The consequence of this inadequacy and fragmentation in the framework for accountability is a decline in confidence in the Crown agency as a valid instrument for the implementation of public policy objectives. Within the last three years, specific events have provided a focus for a rising concern over the adequacy of the existing régime for Crown agencies. These events included the revelation by a Commission of Inquiry of unorthodox practices within Air Canada with respect to the establishment, operation, and reporting of subsidiaries; Polysar's purchase (when it was Polymer Ltd.) of an interest in Sentrachem of South Africa; the contradictory advice from auditors as to invoicing practices in a more recent and highly publicized Polysar affair; the inquiry into claims of separatist influence in CBC programming; AECL's cost overruns and payments to sales agents; and the complaints by certain ministers that they had lost control of the regulatory agencies and Crown corporations in their portfolios.

The gravity of the situation has been underscored by the wide-ranging criticisms and recommendations of the Auditor General and the Public Accounts Committee of the House of Commons. Their reports and proposals have focussed on two concerns: the appropriate role of Parliament and the Government in the

financial management and control of agency and proprietary Crown corporations, and the policy responsiveness of these corporations and of the major regulatory agencies. Those concerns are relevant to the wider problems of defining and scheduling government corporations, setting objectives for them, and holding them accountable for their performance.

Sharing in these concerns, the Government has addressed the specific problem of the policy responsiveness of Crown corporations in the Blue Paper on Crown Corporations. In addition, as part of our mandate, we were asked for our views and recommendations covering not only Crown corporations but the entire array of Crown agencies.

Later in this Report we describe the positions and proposals of the Auditor General, the Public Accounts Committee and the Government as set out in the Blue Paper, and offer our own analyses and recommendations. We do not disagree with most of the analyses of specific problems made by these contributors to the continuing debate on the restructuring of the framework of the relationships among Parliament, the Government and Crown agencies. However, our own study has led us to the conclusion that the Crown agency dilemma cannot be viewed simply as a collection of specific problems of political direction and financial management. The essential need is to restore the integrity of the Crown agency system and to re-establish confidence in it. When there is clear need to do so, Parliament and the Government must be able to turn with confidence to Crown agencies and, in particular, to Crown corporations and other quasi-public bodies.

We believe that Crown agencies are a valid response to the demand for appropriate means to handle tasks analogous to those of the private sector, to form partnerships with groups and individuals from the private sector, or to serve at arm's length in an advisory, deciding, or adjudicative role.

We are strongly opposed to any set of solutions to the problems of management and accountability of Crown agencies that tends to reduce responsibility by emphasizing tighter control by Government and Parliament as the sole answer to shortcomings in policy direction, management, and accountability.

In our view there are four elements present in varying degrees in any accountability régime. Each must be fixed in different degrees within a classification framework for Crown agencies so that any particular mix of elements is appropriate to the specific

task, management needs, and policy context pertinent to any particular category.

The four elements of an accountability framework are

- Mandate
- Direction
- Control
- Evaluation and reporting

Mandate includes a rigorous definition of tasks, purposes and objectives assigned to an agency and a clear delegation of the powers and managerial authority necessary to accomplish them. It is essential to the evaluation of the long-term performance of Crown agencies and to their accountability.

Direction relates Crown agencies to the public interest. It requires a clear statement of the specific powers that Parliament and the Government reserve to themselves with respect to each category of Crown agency and of the conditions under which they can be used. Government must be in a position to monitor the broad directions taken by Crown agencies for it cannot abrogate its ultimate responsibility for seeing that mandates are not exceeded or varied, and that the plans and policies being developed or implemented by Crown agencies are consistent with the Government's over-riding responsibility to Parliament for the public interest.

While direction is primarily concerned with the first part of the mandate, the tasks, purposes and objectives of a Crown agency, **control** relates to the second, the delegation of powers and managerial authority. Control involves the use of a number of instruments which the Government must choose and apply selectively and discriminately. It is in this area that the Government must find that delicate balance between excessive control—which would frustrate the purpose of a Crown agency, and no control—which would be a denial of the Government's involvement and responsibility in the enterprise.

Once the first part of the mandate has been established, instruments of control should be selected so as to affect the delegation of powers to, and managerial authority of, the Crown agency at three distinct stages. The first stage, antecedent to the agency's operations, involves the clear assignment of powers and

duties, vigilant attention to direction, and the power to appoint, evaluate, and change the members of boards or commissions. The second stage of control relates to the on-going activities of a Crown agency where undue emphasis on day-to-day governmental controls runs the risk of pre-empting the advisory, adjudicative, or managerial capacities of an agency. The use of this kind of control calls into question the whole rationale for the existence of semi-autonomous agencies and further confuses the lines of accountability.

At the third stage, subsequent to the operations of a Crown agency, are controls which we believe warrant special consideration as a key element of any accountability régime. These are **evaluation and reporting.** Information generated within Crown agencies should be available for internal governmental evaluation and, as appropriate, for external scrutiny by Parliament. More complete and comprehensible disclosure of information will go a long way toward assuring the Government that Crown agencies are complying with their mandates, provide Parliament with better means of executing its surveillance functions, and induce the Crown agencies to pay careful attention to the tasks confided to them. After all, paying attention, and thus better performance, is what accountability is meant to achieve.

Our recommendations in succeeding chapters are aimed at a clearer identification and more comprehensive classification of Crown agencies, together with the establishment of clear accountability relationships commensurate with delegated responsibilities. Although the régimes we are recommending focus, necessarily, on accountability, as an added bonus they also provide the Government and Parliament with necessary and appropriate instruments of direction and control.

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A PROPOSED RE-ORDERING OF CROWN AGENCIES

Until recently, the only useful guide to the ordering of Crown agencies was to be found in the schedules to the *Financial Administration Act* and in the Authorities Manual issued by the Treasury Board Secretariat. Schedule A lists government departments while schedules B, C, and D list 54 Crown corporations divided into three types: "Departmental", "Agency", and "Proprietary". The Authorities Manual lists an additional 43 "Branches Designated as Departments" for the purposes of the Act.

In May 1977, responding to the Auditor General's criticism that there appeared to be no central agency taking responsibility for maintaining a complete list of such entities, the Treasury Board Secretariat published a list of what it described as "Government-owned and Controlled Corporations". This added an astounding 310 agencies to the 54 listed Crown corporations and, with the 43 branches designated as departments, brought the total number of Crown agencies to 407. As of January 1979 the official count was 426.

The variety of mandates, structures, and tasks of these agencies is impressive and bewildering. The list of 43 Branches Designated as Departments comprises a most disparate mix, reflecting, among other things, an enlargement of the regulatory, adjudicative, and investigative functions of government and a spill-over of self-contained tasks from the conventional departments into quasi-departmental units. This group includes regulatory agencies, administrative or deciding tribunals, temporary bodies such as royal commissions, servants of Parliament like the Auditor General, operating agencies like the National Film Board, and central agencies.

All the remaining agencies on the Treasury Board Secretariat's list are organized under variations of the corporate form. The 14 "Departmental Crown Corporations" encompass such different entities as advisory and granting councils like the Medical Research Council, regulatory agencies such as the Atomic Energy Control Board, and a number of organizations which are effectively parts of departments, like the Director, The Veterans' Land Act.

Schedules C and D of the *Financial Administration Act*, dealing with Crown agencies, reflect the growth of the federal government's role in the economy through the creation or acquisition of a large number of wholly-owned Crown corporations with varying degrees of commercial orientation and financial self-sufficiency. The 19 "Agency Corporations" include marketing agencies such as the Canadian Saltfish Corporation, a number of corporations conducting business for the government such as Defence Construction (1951) Limited, and a smaller number operating in a wider market like Atomic Energy of Canada Limited. The 21 "Proprietary Corporations" are mainly engaged in commercial operations, for example, Air Canada and Via Rail Canada Inc., but also include financial guarantee and insurance concerns like the Export Development Corporation and the Farm Credit Corporation.

The first group of omissions from the schedules are listed by the Treasury Board Secretariat under "Other Government Corporations". They number 27, seem to have few common characteristics other than the fact that they have been purchased, created, or sponsored by the federal government, and range from the Bank of Canada through The deHavilland Aircraft of Canada Limited and the Standards Council of Canada to the Belleville Harbour Commission.

Under the heading, "Mixed Enterprise Corporations" are listed 24 enterprises ranging from the Canada Development Corporation to the Blue Water Bridge Authority. These are share capital corporations owned or controlled jointly by the federal government and other governments, organizations, or individuals.

The lists also set out the categories "Subsidiary Corporations and Their Subsidiaries", which are share corporations that are majority-owned or controlled by Crown or other government corporations, and "Associated Corporations", in which the Government, either directly or through another corporation, has a minori-

ty interest. These two categories account for 260 of the more than 380 entities making up the complete Treasury Board Secretariat list. They represent a vast stew of large and small corporations and include such important organizations as Polysar Limited, Panarctic Oils Limited, and Texasgulf Incorporated.

Finally, there is a list of 18 organizations labelled "Other Entities and Associates" which includes a wide variety of quasi-public corporate bodies, many of which are non-profit organizations like the Vanier Institute of the Family and The Forest Engineering Research Institute of Canada. Many have been created within the last ten years, reflecting the growth of the role of the state, through sponsorship and financial support, to encompass tasks previously left to private institutions.

Merely to parade this motley contingent of Crown agencies is enough to suggest the difficulty of finding a way to restore order to the ranks. Nevertheless, such an exercise must be undertaken if we are to engage in the even more essential task of clarifying the lines of accountability and the nature of the relationship to be established between Parliament and the Government on the one hand and each of these Crown agencies on the other. It is simply not possible to rely on the present schedules to the *Financial Administration Act*, which cover such a small number of the agencies and where the criteria for classification are minimal and inconsistently applied. Nor are we much better off in having an apparently complete register of such bodies, such as the Treasury Board Secretariat list, without any indication of accountability relationships or of how the Government should relate to its agencies.

Identifying a Crown Agency

Three fundamental issues have to be settled if we are to arrive at a re-ordering of departmental and non-departmental organizations with the ultimate objective of establishing appropriate accountability régimes for each category.

The first concerns the trailing end of the procession of putative Crown agencies. Essentially, the issue is how to separate public or governmental organizations from private organizations. To say that the distinction lies in a definition of governmental tasks as against private sector tasks is no help whatsoever, for a

task becomes governmental simply by government assuming it. Is the distinguishing criterion the matter of ownership? Only in part, for even when a Crown agency is not involved as owner, it can have a membership, management, or policy relationship with an organization that would tend to give that organization a governmental character. Moreover, in an increasing number of instances the Crown is sharing ownership either on a majority or minority basis with other governmental and/or non-governmental partners. Can it be said that the source of funding enables us to distinguish between governmental and non-governmental entities? Only if a body receives no funds whatsoever from the federal government and is not qualified to receive loans or appropriations to finance its activities would funding provide a clear indicator as to whether or not a body was a Crown agency.

In our proposed classification scheme, for those entities categorized in the Treasury Board Secretariat list as "Other Government Corporations" and "Mixed Enterprises", we suggest a single category, *Shared Enterprises*. In Chapter 20 we make proposals and recommendations for the special régime of accountability we consider to be appropriate for those Crown agencies that march at the outer limits of government, and draw attention to the need for further examination of the group on the Treasury Board list designated as "Other Entities or Associates" to which we apply the title, *Quasi-public Corporations*, but for which we see no justification for categorizing as Crown agencies.

The second issue to be addressed in this re-ordering exercise carries us to the front end of the procession, where the problem is in distinguishing a department from a Crown agency. Once again, a distinction based upon the substantive tasks to be performed is not particularly helpful. Why, for example, should the operation of airports be entrusted to a conventional department while the provision of an air carrier service is the responsibility of a separate Crown corporation? Why should some regulatory tasks be undertaken by departments when others have been assigned to semi-autonomous regulatory boards or commissions? Why should certain granting or adjudicative activities reside in departments while in other instances they are enshrined in non-departmental bodies? Such questions simply multiply as one seeks to employ "task" as a distinguishing criterion.

The Government's own criteria for establishing the distinctions between departments and Crown agencies are equally

unsatisfactory. In the first instance, an organization becomes a department when Parliament, through legislation, so constitutes it. Beyond that point the situation becomes confused, for the Governor in Council is empowered to declare an organization to be a department for the purposes of particular acts, notably the *Financial Administration Act* and the *Public Service Employment Act*. But the Governor in Council has not uniformly designated organizations as departments for both pieces of legislation. The definitions section of the *Financial Administration Act* identifies as "departments" not only the major group of portfolios listed in Schedule A but also any other division or branch of the public service so designated by the Governor in Council. These include commissions under the *Inquiries Act*, the staffs of the Senate, the House of Commons, and the Library of Parliament, and any "Departmental Crown Corporation" in Schedule B to the Act. The *Public Service Employment Act* defines "departments" to include the Schedule A group and any branch or division designated by the Governor in Council for the purposes of that particular Act.

While this method of grappling with the classification problem tells us whether an organization is a department or a Crown agency, we are still left without an answer to *why*. In seeking an answer to this question we think that three criteria must be invoked: the nature of the delegation of authority to the organization; the form of the organization itself; and the special character of the managerial and decision-making processes essential to the most effective fulfilment of the assigned tasks.

The Nature of the Delegation Elsewhere in our Report we have examined the roles and responsibilities of ministers and deputy ministers in the conventional departmental form of organization. For ministerial departments, Parliament, through legislation, establishes the department, provides for a minister, and entrusts the mandate to the minister and not to the organization. The minister is specifically assigned the "management and direction" of the department. The deputy receives his authority in accordance with the *Interpretation Act*, by being empowered to do anything which the Minister is empowered to do save for the making of regulations. Finally, the deputy receives by way of direct delegation, without reference to the minister, substantial authority over financial and personnel matters from the Treasury Board and the Public Service Commission.

Crown agencies, by contrast, are established by or in accordance with permissive clauses in parliamentary enactments and are directly assigned their mandates and powers. This initially direct delegation is qualified and constrained, however, by the various kinds of controlling powers exercised by designated ministers, other ministers such as the Minister of Finance or the President of Treasury Board, and the Governor in Council. It is in the variances created by the permutations and combinations of such controlling powers that the real dimensions of the arm's length relationship that the Government has conferred on each of its Crown agencies can be established. In subsequent chapters we examine these variances in detail because they are the vital elements in the accountability régimes we are recommending for Crown agencies. At this stage it is sufficient merely to point out that the relationship between Government and its organizational units becomes less constraining as one moves away from the conventional departmental form. From a situation where the delegation to the Crown agency is so constrained by accompanying controls that there is scarcely any discernible difference between the Crown agency and a department, one can move to a situation where the delegation is so unconstrained as to raise doubts about the agency's proper accountability, or, indeed, the propriety of treating it as part of the public sector at all. Between these two ends of the continuum are Crown agencies. Their relatively unsystematic relationships with ministers, the Cabinet, and Parliament epitomize the ambiguity that results from initial delegation being affected or confused by countervailing powers of direction and control held by ministers, central agencies, and the Governor in Council.

The Organizational Form It is obvious that criteria additional to that of delegation must be employed in order to resolve the problem of differentiating Crown agencies from departments. We consider organizational form to be highly relevant to this issue. Measured against this criterion, the resort to Crown agencies can be seen as a type of administrative devolution designed to relieve the conventional departments of an overload problem. This has been accomplished by identifying certain self-contained activities which, if they had been placed in a regular department, would have made awkward or burdensome bedfellows, and for which a special arm's length relationship seemed appropriate. Usually, the process has led to the creation of an administrative form charac-

terized by some type of collegial leadership that is in marked contrast to the hierarchical departmental form where responsibility ultimately resides in a minister.

The alleged or assumed merits of the collegial form of organization are, first, that it visibly symbolizes the Government's intention to establish an arm's length relationship, providing a "buffer" between the operation and the Government, where the nature of the task is thought to be politically sensitive or else requires that decisions be made in an impartial environment. Second, collegial leadership provides a flexible means of adapting structure to the particular requirements of an assigned task. Third, collegial direction and control over management appear to be advantageous, particularly where it is considered useful to the decision-making process, to draw on outsiders' experience, expert advice, regional or interest group representation, or even the representation of other levels of government.

Boards and commissions may all require autonomy but may require it for different reasons. In some instances they may require it because of their deciding or adjudicative role, akin to that of the courts. In other instances a board may be primarily an investigative and advisory body. Finally, a board may be an operating entity, combining collegial policy-making with collective supervision of management. Here, the obvious model is the board of directors of the private sector corporation operating financial, commercial, or industrial undertakings.

Were all Crown agencies organized in board or collegial form, our search for the criterion to distinguish departments from Crown agencies would be ended. Unfortunately, in the group collectively referred to as "Branches Designated as Departments" there are many that do not have this characterizing feature. Even in the Schedule B "Departmental Corporations" group there are two "corporations sole", the "board" having but one member. These are the Director, The Veterans' Land Act and the Director of Soldier Settlement.

The Character of Managerial and Decision-making Processes

The third criterion that could be employed for segregating departments from Crown agencies is the character of the managerial and decision-making processes essential for the most effective fulfilment of the assigned tasks. Once again, use of this criterion is extremely helpful when we address the issue of differentiating one type of Crown agency from another, a problem to which we shall

return. However, its application to the problem of determining when an organization is, or is not, a department still leaves a large question mark over that mixed group of "near-departments" either designated as departments for purposes of certain acts or scheduled as departmental corporations.

Our conclusion has to be that just as there is some doubt about the "governmental" nature of organizations on the outer fringes where public and private concerns meet, so too there must remain doubt at the margins between departments and Crown agencies.

As well, there may be valid reasons for maintaining a category into which may be slotted organizations that are singular and so exceptional that they warrant neither the full status of a ministerial department nor the special arm's length status of a Crown agency. A number of statutory offices, such as the Auditor General, the Commissioner of Official Languages, and the Chief Electoral Officer, appropriately fit this category. In addition, we have no difficulty, for instance, with according special status to organizations that are clearly temporary.

We have more difficulty in determining an appropriate category for several important organizations such as the Canadian Penitentiary Service, the Royal Canadian Mounted Police, Statistics Canada, the National Library, and the Public Archives. These five organizations have one common feature. Their respective heads receive by statute directly delegated authority for management under the direction of a minister. In that rather formal and somewhat limited respect, they stand outside the hierarchy over which the minister and the deputy together preside; they report directly to their designated ministers. In all other respects, except for the forces of the RCMP, they are subject to precisely the same controls by central agencies as is any department. Therefore, the régime of accountability we have outlined elsewhere for the departments should apply to these entities. We do not propose to place them under the rubric of Crown agencies.

The Governor in Council requires flexibility to adapt the general laws that have specific application to departments to meet the idiosyncratic needs of certain entities now designated as departments. There should, however, always be clear disclosure to Parliament of the variances in control and accountability relations created by the special provisions made for such agencies. The need for flexibility may be important in particular cases, but prescribed

exceptions should be strictly limited; otherwise, the clearly defined and common legal framework of accountability we are seeking will be subverted.

Among the "Branches Designated as Departments" there is an important group made up primarily of regulatory and advisory bodies for which we would propose Crown agency status. Allocation to a new category, *Independent Deciding and Advisory Bodies*, will give them the special arm's length relationship they should have.

The foregoing extended exercise has been undertaken in order to establish the boundaries within which Crown agencies lie. While our criteria for establishing the distinguishing features of this group still do not give us knife-edge separation, either at the outer margins between public and private organizations or at the inner margins between departments and non-departments, these ambiguities will not present problems as long as a "border guard" is maintained to ensure against illogical or unwarranted trespass. Should the Government, in exercising its unquestioned prerogative to initiate organizational changes, decide to shift an entity from one category to another, this decision should be tabled in Parliament.

Distinguishing Among the Crown Agencies

Our major concern now is the identification of all Crown agencies; we must distinguish among the Crown agencies themselves. In addressing this issue we invoke the same three criteria to which we have already resorted: the nature of the delegation, the collegial form, and the particular or most pervasive attribute necessarily atttendant to the proper performance of the task. The first two criteria have already been considered, but the third requires elaboration because of the importance we attach to it, in combination with the other two, for differentiating between two broad groups of Crown agencies. These we propose to categorize respectively as *Independent Deciding and Advisory Bodies* and *Crown Corporations*.

The roles of the Canadian Government as regulator of the economy, distributor of benefits to individuals, and owner and operator of various types of business undertakings are not new.

What is new is the extension of these roles and their growing impact on individuals and the economy. The evidence for this expansion is found in the enormous growth of programs, personnel, and expenditures within the conventional departments of government. It is also found in the proliferation of Crown agencies. The aggregate of resources and manpower they command has become almost as formidable as that of departments.

Whether the role is regulatory, adjudicative, policy advisory, investigative, or entrepreneurial, Governments have seen fit to establish Crown agencies with these kinds of roles at one or more remove from the hierarchical departmental structures over which ministers preside. An arm's length relationship is deemed desirable for reasons that vary with the special policy and managerial requirements of the task. For this reason we believe it is important to make a distinction between two categories of Crown agencies.

In the case of the first group, *Independent Deciding and Advisory Bodies*, the reason for according some degree of autonomous or special status is to ensure impartiality and objectivity in adjudication, and experience and representational attributes in the rendering of policy advice. It is an important secondary consideration that the board, commission, or council form for collegial decision-making, almost invariably adopted, is seen to be the most appropriate instrumentality to perform deciding and advisory tasks that warrant a degree of independence. These tasks should be directly delegated. Another important distinguishing attribute for these bodies lies in the nature and terms of tenure for members of the board. In order to signal their independence, board members in many cases are, and in all instances should be, appointed for term and subject to removal "for cause".

The requirement of autonomy for decision-making does not apply with the same force to the administration or management of these agencies. Here we observe that the chairman or head is usually given in law, and should be unvaryingly given, the "care and management" of the agency. In this respect, for all financial and personnel management matters, the head of the agency, as chief executive officer, has a relationship with the central agencies akin to that of a deputy minister of a department. The board or commission in this instance plays no part in the management of the agency.

For the second group of Crown agencies, which we categorize as *Crown Corporations*, there is the same requirement to establish

an arm's length relationship with government, but the reasons for claiming separate status are quite different from those we have identified for *Independent Deciding and Advisory Bodies*. Here the pervasive feature is not so much adjudicative or determining activity, but managerial and operational functions akin to those found in comparable private sector entrepreneurial undertakings in a market setting. The collegial form is once again a common feature, but the board in this instance has an entirely different orientation from that found in our first group. Like the boards or commissions in the other category, the board of a Crown corporation is collectively mandated its tasks, but in contrast to the specific delegation of management authority to the heads or chairmen of *Independent Deciding and Advisory Bodies*, the care and management task, an essential component of the corporation's mandate, is conferred on the board collectively. The need for autonomy is not related to adjudicative and advisory activities, as is the case for the other agencies, but to securing for the corporate board the benefits of operating without the usual constraints imposed on departments. As well, a diversity of experience and judgement can be brought to bear. In short, the desire is to approximate as closely as possible the working environment within which the private sector corporation operates.

We have no illusions that the public sector corporate model can be a precise replica of its private sector counterpart, or even a very close parallel. Neither must we lose sight of the fact that, however the funds may be provided for a Crown corporation, they are administered in trust for the Canadian taxpayer. After all, Crown corporations are as much public or governmental entities as are conventional departments. We are conscious, however, of the possibility that government may lose the benefits of resorting to this non-departmental form for implementing public policies by re-introducing so many constraints on operating autonomy as to negate the original purpose, diminish the sense of responsibility on the part of members of the boards, and further confuse the lines of accountability to Government and Parliament. In short, resort to this form of Crown agency control does not preclude the real possibility that we may get the worst of both possible worlds. We hope that, in the detailed proposals for specific accountability régimes for each of the categories of Crown agencies, and most particularly for those in the *Crown Corporations* category, we have avoided this trap and thereby addressed the dilemma of

Crown agencies. In our Progress Report we described this dilemma as "how to fix responsibility and achieve the degree of special status essential to the performance of their tasks and yet, at the same time, maintain an adequate measure of accountability consistent with their status as instruments of government."

While issuing this cautionary note, which we address as much to ourselves as to the government, we would also call attention to another source of confusion which we expect our categorization to obviate. It would appear that, in recognizing the obvious merits of the board form of organization, government has frequently taken the route of incorporation to secure a board without first determining whether this model will allow for the development of a board and an organization which is appropriate to the particular nature of the task in question. Boards, as we hope we have made clear, operate in two very different ways, depending upon the requirements of their assigned tasks.

The Blue Paper on Crown Corporations implies that the same obligations should be imposed on the members of all Crown agencies as are imposed by legislation on the members of the boards of private sector corporations. In our view, not to make a distinction in this respect between the members of boards and commissions of deciding and advisory bodies and the directors of Crown corporation boards would be singularly inappropriate. The fact that the Blue Paper proposals carry forward and relate to the existing classification is one of that paper's most significant shortcomings because of the consequences for recommendations concerning direction and accountability that are set on such an incomplete and unsuitable foundation.

Finally, we realize that when it comes to placing a Crown agency in one of our proposed categories there may be, in a few instances, uncertainty concerning the major features of the tasks and that, indeed, the tasks of an agency may entail *both* deciding and managerial roles as is the case, for example, with marketing boards. For such agencies, although we are prepared to categorize them by applying the criteria we have developed, we are less concerned that the choice be identical with ours than that it be made in accordance with some such set of established reasons as it has been our purpose to elaborate in this section.

Accordingly, we recommend that

16.1 the Schedules to the Financial Administration Act be replaced by a more comprehensive set of schedules in accordance with four categories:

1) ***Ministerial and Other Designated Departments***
2) ***Independent Deciding and Advisory Bodies***
3) ***Crown Corporations***
4) ***Shared Enterprises***

and that when any re-scheduling occurs such decisions be tabled for the information of Parliament.

Our proposed classification of departmental and non-departmental bodies according to these categories is set out at Appendix A. We have also listed in that Appendix entities that do not meet our definition of Crown agencies, but which we have chosen to call *Quasi-public Corporations* because of the special nature of their relationship with government. We deal with these in Chapter 20.

17

ACCOUNTABILITY FOR CROWN AGENCIES

The justification for re-ordering Crown agencies goes beyond a desire to achieve logical tidiness for, as we have observed, classification is a necessary prelude to harmonizing and rationalizing the management and accountability relationships that should be in place for each group of Crown agencies. Present arrangements, which have evolved piecemeal and have been only partially consolidated in general enactments, justify a fresh effort to come to grips with the issue. To this end it is imperative that we have a clear view of where we have come from and where we are with respect to the accountability of Crown agencies.

Present Management and Accountability Framework for Crown Agencies

Until the end of World War II, no general legislation specifically addressed itself to the administration of even a segment of the Crown agency group. The degree of "special status" an agency enjoyed and the nature of its accountability relationships with the Government and Parliament were dictated, with a few exceptions, by the provisions of its constituent act. During World War II over thirty Crown companies were created by letters patent under the *Dominion Companies Act*. This placed the designated minister in the effective position of sole shareholder and defined his, and, therefore, the Government's powers in relation to the companies in terms of the powers provided to a shareholder under the Companies Act. As Parliament had delegated to the Government, under

the *War Measures Act* and the *Munitions and Supply Act,* the power to create Crown companies by letters patent, it was not actively involved in the accountability of Crown companies during this period.

The *Government Companies Operation Act* of 1946 represented the first effort by the Government and Parliament to spell out a general framework for the management and accountability of one group of its Crown agencies. The framework set down for Crown companies was far from comprehensive, however, in that it dealt largely with matters of financial management and disclosure.

Pursuing the logic of this act, the *Financial Administration Act* (FAA) of 1951 established a general framework for the government, Parliament, and almost the entire spectrum of Crown agencies with respect to financial management and reporting. In fact, only seven government corporations (the Bank of Canada and its subsidiary the Industrial Development Bank, the Canadian Wheat Board, the Eastern Rockies Forest Conservation Board, the Halifax Relief Commission, the Fraser Valley Dyking Board and the Greater Winnipeg Dyking Board) were left outside the new classification system in the schedules of the FAA, and were thus dependent entirely on their constituent acts to spell out the nature of their relationship with the Crown.

Designed essentially to bring order to the governmental approach to financial management, the FAA has proved in recent years to be unsatisfactory as the foundation of more comprehensive management and accountability relationships involving the Government, Parliament, and Crown corporations. As a result the Government has made occasional efforts to improve the terms of the relationships. To the direction and control powers available to it under the various constituent acts,and under the FAA, and, to a much lesser extent, the *Public Service Employment Act,* the Government has, by revising some constituent acts, accorded itself an explicit power to issue policy directives to certain Crown corporations and regulatory bodies. There has also been an internal effort to have Schedule C and D corporations co-operate in a more comprehensive planning and budgetary process and, with its emergence as a department, the Treasury Board Secretariat has joined the Department of Finance in playing a major role in the allocation of resources to Crown agencies. The limited powers accorded to Parliament to be informed through reports, to approve budgetary appropriations, and to take part in the establishment of

the mandates of those agencies created by statute have not been augmented since 1951.

An equally significant change since 1951, a result of the growth in the number of Crown agencies and the failure to include them in the Schedules, is the weakening of the FAA as the cornerstone of the management and accountability relationships among Parliament, the Government, and the semi-autonomous agencies. With the proclamation of the FAA, almost all the agencies in which the federal government was involved were explicitly classified in its Schedules or designated as departments for the purposes of the Act. Therefore, almost all were covered by its provisions except where those provisions conflicted with constituent acts. Since that time, a large number of government corporations such as the Canada Development Corporation, the Canada Council, and The deHavilland Aircraft of Canada Limited, have been created or acquired without being scheduled under the FAA. As a result, provisions for their accountability to the Crown are essentially idiosyncratic, founded either on the provisions of their particular constituent acts or on the powers available to the Crown under the general corporation law under which they were incorporated. The existing management and accountability framework, therefore, is fragmented in its coverage, affecting no two groups of Crown agencies in precisely the same manner.

Most "Branches Designated as Departments" and "Departmental Crown Corporations" operate in budgeting, financial, personnel, and administrative matters under the same framework of management and accountability as conventional departments. Under their constituent acts, however, several of these agencies have a measure of freedom from policy direction by a designated minister because of their task (e.g., deciding, policing) or because of their direct relationship with Parliament. Similarly, the members of most deciding tribunals are appointed for term and subject to removal only for cause in order to reduce the possibility of Government interference in quasi-judicial or regulatory decision-making processes. Under the constituent acts of most Schedule B departmental corporations, by contrast, the Government has the power to approve bylaws and to appoint and remove directors, board chairmen, and agency heads. In addition, the Government has the power to issue policy directives under the constituent acts of two Schedule B corporations.

The management and accountability relationships of "Agency" and "Proprietary" Crown corporations to the Government and Parliament are largely founded on the financial control provisions of the FAA. These include Government power to approve annual capital, and for agency corporations operating, budgets and resulting contracts and major expenditures; appoint auditors; prescribe the form of budget submissions; regulate reserves, bank accounts, and the treatment of surplus funds; require the submission of annual and other reports; and, dictate the form and content of financial statements and the reporting requirements for auditors. The FAA also imposes an obligation on the designated minister to table in Parliament the approved capital budgets and annual reports of the corporation, including the auditor's report. In addition, the Government has the power to approve bylaws and to appoint and remove the directors, board chairmen, and chief executive officers of most agency and proprietary Crown corporations. Moreover, the constituent acts of some corporations, including the Central Mortgage and Housing Corporation, Air Canada, and Petro-Canada, provide the Government with the power to issue directives to the agency. For the Crown corporations that operate under Schedules C and D and for those that were established by letters patent under predecessors of the *Canada Business Corporations Act* (CBCA), the designated minister, as the sole trustee shareholder, would appear to have the power to issue policy directives in the form of unanimous shareholder agreements. These corporations include Atomic Energy of Canada Limited, Loto Canada Incorporated, Eldorado Nuclear Limited, and the Northern Transportation Company Limited.

The framework for management and accountability within which "Other Government Corporations" operate is dictated entirely by individual constituent acts or articles of incorporation under the CBCA or its predecessors. These corporations are not scheduled under the FAA. Similarly, for the 24 "Mixed Enterprise Corporations" in which the Government has a controlling interest, the management and accountability relationship of the agency with the Government and Parliament is dictated by the shareholder/corporation relationship established under federal or provincial corporation law. Only the Canada Development Corporation and Telesat Canada have constituent acts that define the relationship, and in both acts the definition is largely through reference to the CBCA.

The management and accountability relationships of the Government and Parliament to "Subsidiary or Associated Corporations" of Government-owned or controlled corporations has never been defined and would appear, at this time, to be almost entirely limited to the Government's and Parliament's relationships with the parent corporations.

It is extremely difficult to give a capsule summary of the connection between the Crown and the "Other Entities and Associates" group on the Treasury Board Secretariat list. All of these are corporate bodies that have been created through their own constituent act or letters patent under the *Canada Corporations Act*. With some, like the Vanier Institute of the Family, however, there would appear to be little or no relationship with Government, and the presence of the entity on a list of Government-owned and controlled corporations is difficult to explain. Others would appear to be related to the Government in a variety of ways but do not seem to have been delegated a continuing public responsibility that would demand a direct accountability link. Still others, particularly those operating under a constituent act like The International Development Research Centre, seem to have a more easily discernible relationship based entirely on the act itself.

This summary of the present management and accountability frameworks for all those non-departmental bodies listed by the Treasury Board Secretariat, clearly suggests that the relationships among Parliament, the Government, and the entities commonly thought to be Crown agencies are frequently vague, confusing, and in need of reform.

Inadequacies of the Framework In 1951 the management and accountability framework for Crown agencies arising out of the FAA, the constituent acts, and general corporation law was both comprehensive and appropriate to the needs of the time. However, over the nearly 30 years since, this framework has become fragmented and outmoded in terms of the demands of contemporary government.

The fragmentation of the framework, signalled by the establishment of a large number of management and accountability relationships outside the direct influence of the FAA, is largely a result of the increase in the numbers and, more particularly, the variety of instruments that Parliament and the Government have

felt necessary to employ in supporting government involvement in new public policy areas. However, even when the FAA is used as the major legal building block of the relationships among differing entities, Government, and Parliament, there is a tendency on the part of the participants to establish the connections on the basis of informal mechanisms, such as consultation. These informal means have been considered more appropriate than financial management processes to the needs of policy co-ordination. If the FAA-based framework is seen to be unsuited to modern policy demands, it is also widely viewed as inadequate even as a basis for financial management.

The result has been a significant decline in confidence in the adequacy of the FAA as a suitable foundation for harmonious and productive relationships. If this situation is not corrected, it is bound, in time, to cast doubt on the validity of employing non-departmental entities as vehicles for the implementation of public policy objectives. We would regard such a consequence as unfortunate.

The existing framework for management and accountability has received a number of critical blows over the last several years. The Glassco report pointed out several problems that were not being adequately handled under the existing régime and we have found that they have remained largely uncorrected to this day. That report drew attention specifically to the lack of clarity in the establishment of corporate mandates and the delegation of responsibilities and powers to ministers and agencies. It pointed out the dangers associated with allowing government corporations to incorporate subsidiaries without the involvement of Parliament and the Government. The need to guard against abuse of the general directive power was cited and the inadequacy of the approach to corporate board and chief executive officer appointments was indicated. The Glassco report discussed the financing practices employed with respect to corporate entities and the abuse of the corporate form by its use in inappropriate settings as well as the use of the form to mask a departmental-type organization. Finally, it pointed up the lack of consistency in the status, form, and procedures of deciding tribunals. While that Commission did not generally condemn the FAA-based framework, its criticisms reflected a growing awareness in 1963 of the shortcomings of that framework for the management and accountability of non-departmental entities.

Recently, questions have been raised concerning the adequacy of the existing Crown agency régimes in the context of specific events that seemed to illustrate a particular failing of the management and accountability relationships between the Crown and the agencies, or to cast doubt on the wisdom of giving significant degrees of autonomy to the managers of Crown agencies.

The Government addressed the specific problem of the policy responsiveness of Crown corporations in its Blue Paper which contains a draft Crown Corporations Bill designed to update the provisions of the FAA and provide a framework for the policy co-ordination of Crown corporations. Its major premise is that all Crown corporations are instruments of public policy and as such must be responsive to the Government's overall priorities. The Blue Paper concludes that

> while a few Crown corporations may no longer be instrumental in the achievement of broad policy objectives, the vast majority of Crown corporations are instrumental in the achievement of such objectives and are, accordingly, a vital part of the Goverment of Canada. The Government proposes, therefore, that the forthcoming Crown Corporations Bill contain a declaratory statement indicating that those Crown corporations that are now wholly-owned by the Government of Canada and are to continue to be wholly-owned are constituted as instruments for the advancement of the national interest.[†]

The Government contends that Crown corporations have not been living up to this responsibility, and that the Government under the existing framework for management and accountability, does not have the mechanisms at its disposal to force Crown corporations to act as instruments of public policy. The Blue Paper notes that

> it is the Government's view that means must exist whereby governments may, on a continuous basis, communicate broad policy objectives to the corporations and whereby the corporations must account to government and Parliament for the achievement of those objectives. The Government has over the past years endeavoured to use annual corporate budgets and reports in this fashion. Yet, for reasons that will be explored in greater detail, budgets and reports have at times proven unduly cumbersome and less than effective.[†]

[†]Canada. Privy Council Office. *Crown Corporations; Direction, Control, Accountability. Government of Canada Proposals*. 1977. p.22, 23.

Effectively, then, the Government is admitting that it does not have the capacity to give policy direction to Crown corporation. A similar claim is made with respect to the major regulatory agencies. For regulatory agencies, the Government's solution is simple. It intends to amend the constituent acts of the major regulatory agencies to include a provision allowing the Cabinet, through the designated minister, to give a formal policy directive to the agency.

In regard to Crown corporations, instead of focussing on one mechanism, the Government argues that the policy relationships between it and "Agency" and "Proprietary" Crown corporations need to be completely revised. The budgetary approval process and annual reports, which under the FAA and most constituent acts have been the central opportunities to communicate objectives and check on progress, are to be changed. Under the Blue Paper proposals, the budgetary approval process described in the FAA will be replaced by an approval process involving a 3-5 year "rolling" corporate plan, annual corporate budgets, and supplementary corporate budgets. It is expected that the proposed planning and budgetary cycle in concert with improved annual reports will contribute to an upgrading of the accountability linkage with respect to policy performance. In addition to a new government-designed planning and budgetary process, the Government also proposes that its potential for direction of Crown corporations be increased by the addition of powers to approve the creation and acquisition of subsidiary corporations and to issue policy directives.

Two of the major participants in the debate concerning the financial management and control practices of Crown corporations have been the Auditor General and the Public Accounts Committee of the House of Commons. Much of their analysis has been aimed exclusively at those corporations whose books the Auditor General audits. The Auditor General's most comprehensive statement on the state of financial management and control in Crown corporations came in his 1976 report, which contained the results of his two-year study of the issue. In large part, the Public Accounts Committee's "Crown Corporations Report" of April 1978 echoes the Auditor General's views and reinforces his recommendations. The Government, in the Blue Paper, also expresses general support of the Auditor General's criticisms, and its reform proposals place emphasis on the need to forge a new management relationship between the Government and all Schedule C and D Crown corporations. It is suggested that such a new relationship

will lead to improvements in financial management and control within the corporations themselves.

The general thrust of the Auditor General's report was that financial management and control in the Crown corporations that he audited were weak and ineffective, and that co-ordination and guidance of these practices by the Treasury Board were virtually non-existent.

The result has been an unacceptably low level of accountability for the expenditure by corporations of public funds. The Auditor General's analysis started with first principles, pointing out that the collapse of the FAA as a useful base for classification was responsible for the disintegration of the comprehensive régime for financial management in Crown corporations. By contrast with the Government's approach to classification, which requires full Government ownership, the Auditor General recommended that all government-owned and controlled corporations should be scheduled in the FAA and subject to its provisions. He also pointed out deficiencies in the coverage of the Estimates and Public Accounts, and recommended that all Crown corporations dependent on appropriations be included in the Government of Canada accounts.

The Auditor General expressed dissatisfaction with the budgetary approval process, but he did not lay the blame for its ineffectiveness, as did the Blue Paper, at the feet of the Crown corporations. He argued that the informal methods adopted by the government to advise the corporations of broad government objectives were deficient. He wanted the Treasury Board to provide fuller instructions to what were identified as "non-commercial" Crown corporations concerning the form and content of Program Forecasts, Estimates, and capital and operating budgets. For the benefit of Parliament, he insisted on the necessity of integrating budgetary and Estimates information into one package.

Another major area dealt with by the Auditor General was reporting and disclosure. He pointed out the failings of the financial statements of Crown corporations and the unsuitability for Parliament's purposes of their presentation in the Public Accounts. He also expressed the view that the use of generally accepted accounting principles and the integration of financial statements with departmental data would be suitable solutions to these problems. By contrast, the Blue Paper proposed that the Treasury Board be given the power to determine governmental accounting standards for Crown corporations. In addition, the Auditor Gener-

al recommended that annual reports be improved as a mechanism for performance monitoring.

The Auditor General also had reservations about some of the practices used by the Government to finance Crown corporations, the level of budgeting control by the Treasury Board and within the Crown corporations themselves, and the apparent lack of concern about the entire financial management and control problem. The Auditor General's view was that both the Treasury Board and the agencies had to adopt a more positive approach to financial management and control but that the responsibility for ensuring that improvements took place lay with the Treasury Board. In this latter thesis, and for most of his analysis and recommendations, the Auditor General received the support of the Public Accounts Committee and the Government. Both agreed that the Government had to take the initiative with respect to financial management, and that a much higher degree of Government control over procedures and processes was the key to the problem.

The Public Accounts Committee tended to go farther even than the Auditor General as a result of its hearings on the Polysar affair and the Government's Crown corporation proposals, placing on the Government the responsibility for developing commercial practice guidelines and monitoring compliance with them. In addition, the Committee recommended that developing guidelines and procedures respecting the manner in which Crown corporations dealt with foreign subsidiaries should be the responsibility of the Government. The Public Accounts Committee also argued that the Auditor General should have access to the audit reports of those corporations for which he is not the auditor.

Elements of an Accountability Framework for Crown Agencies

The foregoing review of measures taken or proposed for placing Crown agencies under clearer and more consistent régimes of accountability and control reveals how difficult it is to fit these non-departmental entities into a "mutually compatible management system" upon which we were expressly directed to focus our

attention. The problem would be difficult enough if there were only conventional departments to cope with; the existence of a second public service comprising such an assortment of non-departmental agencies exacerbates the problem.

The existing framework for accountability of Crown agencies falls short of what is required on several grounds. Far too many agencies are excluded. For those covered, the framework is inconsistently applied or does not differentiate sufficiently among the various categories. The framework relates almost exclusively to financial management. These shortcomings become of major concern when we perceive that both the Government's and the Auditor General's proposals for reform and improvement are couched in terms that imply acceptance of the existing framework set out in the *Financial Administration Act* and its Schedules. Accordingly, while we are in agreement with many of their specific proposals, we wish to address the same issues in the context of the more comprehensive classification framework which we recommend and endeavour to apply in the chapters that follow.

Before embarking on this necessarily detailed and technical exercise it will be useful to return to the four basic elements of the management and accountability régimes for each of the proposed Crown agency categories. In brief, we have asserted that an appropriate accountability régime must comprise a mixture of variants of elements we have identified as mandate, direction, control, and evaluation and reporting. Each of these elements, in turn, relies on the use of certain instruments to make its contribution to the accountability régime. Parliament, ministers, central agencies, and Crown agencies control or share in the use of these various instruments. The attributes of the special status that define the nature of the arm's length relationship that should most appropriately pertain to each Crown agency in our proposed categories is derived from the variations in the application of these instruments.

Beginning with **mandate**, we observe that the essential instrument is a legal enactment setting out certain purposes, tasks, and powers and devolving these to a Crown agency or, more specifically, to the board or commission collectively. The formulation of the mandate is the beginning of accountability, for it should define what must ultimately be answered for by the board. This is Parliament's instrument, which it wields by giving legislative

sanction to both the creation of the agency and its objectives. However, some Crown agencies, particularly Crown corporations and their subsidiaries, operate without their own constituent acts. For these a supplementary instrument must be available in the form of letters patent which should be tabled for the information of Parliament.

The second element for an accountability régime is **direction.** For a conventional department the minister is vested with this responsibility which he carries out within the limits imposed by the policies and programs assigned to him by Parliament, and amplified by Governor in Council orders. For Crown agencies whose mandates are directly received from Parliament, the role of the designated minister and the Governor in Council is less clear. Nonetheless, because Crown agencies are instruments of public purpose, just as are departments, ultimately the doctrine of individual and collective ministerial responsibility must be preserved. We stress the word "ultimately" to emphasize the fact that ministerial responsibility for Crown agencies is not immediate or direct as it is for the hierarchical organization over which a minister presides. Rather it is rendered remote by virtue of the initial conferral of power and authority on the board of the Crown agency. This mode of delegation carries with it the potential that the Crown agency's interpretation and implementation of its public policy mandate may be at variance with the minister's and the Government's views. Since, in the last analysis, the policies being implemented are those of the Government, which must bear responsibility for them, there must be an instrument available to the Government to resolve the inherent tension that may develop between it and the Crown agency. We believe that instrument is to be found in the *ministerial directive*, an instrument that should be used only sparingly, publicly, and with clearly specified conditions attached to its use. Given the quite different nature of the tasks assigned to the two major groups of Crown agencies we have defined as *Independent Deciding and Advisory Bodies* and *Crown Corporations*, the conditions we proposed to attach to the use of the directive will have to be varied in each instance in a fashion we explain in the next two chapters. We do not believe such an instrument is either necessary or desirable in the cases of those Crown agencies we have designated as *Shared Enterprises* and of those entities we have identified as *Quasi-public Corporations*.

For such agencies and entities the involvement of the Crown is not so total and direct that it would warrant a preferred position over other participants that would be expressed through the capacity to issue a directive. We would look to the protection of the rights of shareholders designated by the *Canada Business Corporations Act* or similar legislative enactments to ensure accountability of the organization for proper implementation of its mandate.

Turning to the third element of an accountability régime, **control**, we find the most serious problems in achieving the desired balance between autonomy and accountability for Crown agencies. The reason is obvious. Every control, externally imposed, in some measure does violence to the independent status originally assigned to the agency. Carried to extremes, externally imposed controls would divest the agency of any real authority, with an accompanying dissipation of that sense of responsibility upon which genuine accountability relies. On the other hand, a total absence of external controls over Crown agencies would create the equally undesirable prospect of such bodies losing their public or governmental orientation.

The problem of finding the right balance between autonomy for the agency and governmental control is particularly acute in the case of *Crown Corporations*, whose boards are vested with the care and management of their respective enterprises. Excessive control exercised by the minister, Governor in Council, or central agencies would debilitate the board and make it difficult to attract people of the highest calibre to directorships. Neither is it an ideal solution to impose on directors rigorous responsibilities, such as are to be found in the proposals contained in the Blue Paper, if at the same time directors are subject to a régime of external control that makes it unrealistic for them to accept such responsibilities.

For the members of Crown agencies in the category *Independent Deciding and Advisory Bodies*, whose autonomy is predicated on their need to preserve objectivity and impartiality in their decision-making processes rather than their management tasks, the problem of finding that nice equilibrium between control and autonomy must be addressed in a different way. It is primarily for this reason that we have segregated, so as to vary, the accountability régimes for each group.

Just as there are varying degrees of control that must be determined for each group of Crown agencies, so too there are various instruments of control that depend for their effect on the

timing of their application. That is to say, controls can be imposed in advance of, during, or after the event.

Controls that are imposed in advance should be aimed at shaping or influencing the direction or path to be followed by the agency. With respect to *Crown Corporations* we agree with the Blue Paper proposals that a major instrument here will be the corporate plan. But for all Crown agencies we believe the most potent instrument in the hands of the designated minister or Governor in Council is the power to appoint and change boards. For *Independent Deciding and Advisory Bodies*, we endorse the present mode of appointment, but emphasize the fixed term and assured tenure of such appointees as a guarantee of the independence they require to perform their adjudicative and/or advisory roles. For the directors of *Crown Corporations*, as well as the chairmen of boards of directors, we recommend appointment by the Governor in Council for fixed terms with staggered expiry dates to achieve continuity. By the same token, to underline both the authority of board of directors over management and the separation of management from the Ministry, we are recommending that the chief executive officer be appointed and removed by the board subject to confirmation by the Governor in Council. In contrast, for Crown agencies in the *Independent Deciding and Advisory* group, we recommend generalization of the already prevalent practice whereby the chairman is designated by statute as the chief executive officer and has the direction and management of the agency.

On-going controls over the direction and management of a Crown agency relate to staff and budgets. For *Independent Deciding and Advisory Bodies* we do not see the need for varying the controls exercised by the central agencies, as modified by our recommendations, with respect to departmental management of financial and personnel resources. In so far as our recommendations are designed to clarify the responsibilities of both central and departmental managers with a view to imposing more direct accountability throughout the departmental system, we find no serious violation of the autonomy of Crown agencies where the intent is the protection of the integrity of the decision-making processes rather than managerial autonomy.

The real problems arise when on-going controls over the management of people and money are imposed on Crown corporations. The most persistent and persuasive rationale for resorting to

this non-departmental form of organization has been the alleged necessity, if the enterprise were to be efficiently managed and operated, of escaping from the controls to which departments were subjected. We believe that our recommendations with respect to rationalizing the system of external controls over departments will go some distance in helping both to free departmental managers and to make them more accountable, thereby removing some of the concerns that Crown corporations have had with respect to preserving their autonomy in these areas. Nevertheless, the interposition of a corporate board with a specific mandate between managers and the central agencies does create a need for other controls than those we have proposed for ministerial departments. In general, we believe that the Government should reinforce and use more effectively the instruments of pre-control, through its capacity to scrutinize the corporate plan and through its appointment and removal powers, and by emphasizing the instruments of post-control, such as appraisal and review of performance against stated corporate objectives to which we refer presently. On-going controls should be minimized to leave the boards of directors and chief executive officers with the necessary freedom to get on with their assigned tasks.

No corporate board in the private sector would be disposed to settle for less than this degree of autonomy for on-going operations, but public sector boards have to reconcile themselves to some continuing surveillance and controls. With respect to freedom to manage their own personnel, the common but by no means uniform practice is to leave this important branch of management to the corporation which undertakes collective bargaining as an employer in its own right under the *Public Service Staff Relations Act* or the *Canada Labour Code*. We are recommending that for all *Crown Corporations* this element of managerial autonomy be confirmed but that all collective bargaining be conducted under the *Canada Labour Code*.

The most important prospective area for imposing on-going control is that of budgeting. In the pure theory of the public corporation, control in this area would not be possible, for the theory holds that such entrepreneurial ventures, like their private sector counterparts, would finance themselves from the revenues secured from the sale of goods and services. Unfortunately, practical experience testifies to the failure of the model to live up to these expectations. Nor could it be othewise, given that most

Crown corporations were set up to implement some public purpose that, almost by definition, entailed the provisions of an essential service, with due regard to cost but regardless of whether or not it could be provided so as to be self-financed. Few public corporations are able to continue without either annual or sporadic resort to the public purse. Such resort may be based on a requirement for capital loans or advances or for initial block funding to create a revolving fund which, in turn, may require occasional "sweetening" by further public funding. Indeed, for some corporations, the bulk of operating budgets must be met out of annual appropriations as is the case for conventional departments.

All *Crown Corporations* should develop a *Strategic Corporate Plan* which would be prepared and approved by the board of directors and forwarded to the designated minister for information. Operating budgets that place no demands on the public purse would be approved by the corporation and referred to the designated minister for information only. After approval by the board of directors, all capital budgets, whether dependent on appropriations or not, and operating budgets requiring appropriations should be forwarded to the designated minister for governmental approval. The budgetary approval process should aim at striking the balance between autonomy for the corporate board and the needs of the Government and Parliament. We elaborate on this critical point in developing our recommendations on *Crown Corporations* in Chapter 19.

Turning, finally, to the third set of controls, those we have described as post-controls, we find there are four important instruments: appraisal, audit, review, and disclosure. Appraisal, which refers to the assessment of the performance of members of boards and their chief executive officers, has an important bearing on the application of the pre-control power of appointment. Recognizing that there must be a very large element of trust when the Government confers on Crown agencies important discretionary powers, it is imperative that due care be exercised, not only at the initial appointment stage, but also at the personnel assessment stage to ensure true accountability. We have more to say on this matter in subsequent chapters.

Audit in government has historically concentrated on checking the legality and probity of expenditures. More recently it has added a concern for efficiency, effectiveness, and value for money spent. The Auditor General has, on behalf of Parliament, exercised

this control over all departments and many of the Crown agencies. A number of Crown corporations are authorized to appoint their own auditors or have external auditors appointed for them. We make recommendations in Chapter 19 to give the Auditor General access to the reports of external auditors and we will also propose ways in which Parliament should prepare itself to deal more effectively with such reports.

Review relates to the total performance of the agency and can be undertaken only where mandates are clear and where Strategic Corporate Plans and budgets provide a basis for making judgements, after the event, on how closely the reported performance of the Crown agency measures up to its commitments as expressed in the plan and the budget. Review has both a governmental and a parliamentary dimension and in succeeding chapters we make recommendations on what needs to be disclosed in order to provide the minister, central agencies, and Parliament with information relevant to their review and surveillance responsibilities.

Disclosure is the end of the accountability chain, but what is to be disclosed, to whom, and with what consequences are questions to which a completely uniform response for all governmental bodies, departmental or non-departmental, cannot be expected. In succeeding chapters we spell out the variances in disclosure that we feel are consistent with the different degrees of arm's length relationship sought for various types of Crown agencies. In principle, our objective is to secure as full and meaningful disclosure to Parliament as is consonant with its surveillance role as the watchdog for the nation.

18

INDEPENDENT DECIDING AND ADVISORY BODIES

In Chapter 16 we developed the rationale for identifying the category of Crown agencies that we have named *Independent Deciding and Advisory Bodies*. Applying the criteria and characteristics that we believe these agencies should share in order to be brought into an accountability régime consistent with their tasks, we have identified thirty agencies. Although the membership of this category may appear to be heterogeneous and indeed highly disparate, we think that a common category is merited not only because of fundamental differences in activities as compared with those in other categories, but also because of attributes all members do or should share.

Grouping all such deciding and advisory bodies does not preclude the possibility of recognizing the special features and requirements of subgroups. As determined by the primary functions of the individual bodies, there are four clearly identifiable subcategories, three of which are different types of adjudicative or deciding bodies; the fourth is made up of advisory/research bodies.

The first subcategory consists of *regulatory* agencies whose primary functions are licensing, making rules and orders, and supervising activities in a particular industry or sector of the economy, all of which have profound impact on, and control over, the behaviour of individuals and corporations. In this group are found fifteen of the thirty *Independent Deciding and Advisory Bodies*. Included are such agencies as the National Energy Board, the Canadian Transport Commission, the Atomic Energy Control Board, and the Canadian Radio-television and Telecommunications Commission. The full list appears in Appendix A.

The second subcategory comprises those *deciding* tribunals that perform a specialized adjudicative function affecting individual rights. Examples of these are the Canadian Pension Commission, the Immigration Appeal Board, the National Parole Board, and the Tax Review Board.

The third subcategory, *granting* agencies, contains those bodies whose deciding function entails the adjudication of applications for public funds to conduct research or support cultural activities. There are six such agencies, the Canada Council, the Canadian Film Development Corporation, the International Development Research Centre, the Medical Research Council, the Natural Sciences and Engineering Research Council, and the Social Sciences and Humanities Research Council.

The fourth subcategory includes those bodies established to undertake *research/advisory* tasks, either on their own initiative or as requested by their designated minister, in areas of major public significance. The Advisory Council on the Status of Women, the Economic Council, the Science Council, and the Law Reform Commission are included in this group.

We recognize that the functions of all four subcategories are not unique to their members. Regulatory, adjudicative, granting, and research and advisory activities are also carried out within other Crown agencies and within departments and, as such, are governed by traditional norms of ministerial responsibility. Our research has shown, however, that in the most important deciding or advisory areas independent bodies have been created. In our view, when such responsibilities are delegated to Crown agencies, this independence provides a principle for classifying these bodies and ordering their relationships to politically accountable authorities.

This observation brings us to a comment that arises out of the difficulties we have encountered in discerning the rationale for the creation of some agencies. We think that agencies should not be established outside departmental structures when there is no apparent need for special non-departmental status. The creation of the Foreign Investment Review Agency appears to us to be a classic example of how the creation of an agency can unnecessarily confuse the lines of accountability. In its representations to the Commission, the Privy Council Office argued that FIRA should not be treated as a regulatory agency, as did the submission from the present Commissioner of FIRA. Notwithstanding popular

misconceptions, FIRA is not a decision-making body, but is solely an adviser to its designated minister and, through him, to the Governor in Council. As far as we can determine, no decision has been made as to where FIRA and similar agencies should be classified, but, in any case, the issue is not simply one of classification. It is accountability. Agencies should not be established without clear lines of accountability. As presently constituted, we believe that FIRA should be categorized as an *Other Designated Department*, so that both its status and the lines of political control and accountability are clear to all.

The Attributes of Independent Deciding and Advisory Bodies

The agencies grouped in this category have regulatory and rule-making authority, a capacity to determine individual claims, or a responsibility for rendering policy advice that has a pronounced impact on the economy at large or on the rights of particular individuals. For such agencies their adjudicative, decision-making, and advisory powers have an importance out of all proportion to the modest resources each requires to implement its mandate. Accordingly, in developing an accountability régime that is appropriate for such agencies, we see little need to vary the controls that we have proposed for the management of departments.

We are persuaded to adopt this position by the fact that in most, but not all, instances direction and management of the affairs of the agency are assigned specifically to the chairman or head of the agency and not to the members of the agency as a collectivity. He therefore should be accountable for his administration in the same manner as the deputy head of a department. On the other hand, the direct assignment of a special task to a collectivity, a board, commission, or council, is the common attribute of such bodies, reflecting Parliament's desire to see that the agencies perform their responsibilities in an independent, impartial manner and at arm's length from government. Thus, an important differentiating characteristic of these agencies is the collegial nature of decision-making with respect to the implementation of the mandate. This collegiality is in contrast to the individual

responsibilities of ministers and their deputies in so far as departments are concerned.

The second important distinguishing feature of this group of Crown agencies has an important bearing on the autonomy of members of such agencies. Unlike deputy ministers, who are appointed by and serve at pleasure of the Governor in Council, almost all members of these deciding and advisory bodies are appointed by the Governor in Council for a fixed term and subject to removal only for cause. In some instances removal requires confirmation by joint resolution of both Houses of Parliament.

An Accountability Régime for Independent Deciding and Advisory Bodies

As we have already indicated, the proposed accountability régime for this group of Crown agencies is predicated on two assumptions. First, the management of such agencies does not warrant a relationship between the agency and the Government differing from that of a department. Second, the adjudicative, deciding, or advisory roles specific to each agency do create a need for varying the accountability régime; the nature of the arm's length relationship between the agency and the Government with respect to the fulfilling of these roles should be clearly spelled out.

Turning to the first assumption, we observe that most of the statutes or other legal instruments establishing *Independent Deciding and Advisory Bodies* clearly designate one official as chief executive officer having the direction and management of the agency. There are some, however, such as the Canadian Transport Commission, the Canada Council and the Tariff Board, where there is no such position designated or it is ambiguous where such responsibility rests. We think it imperative that every agency have one official so designated. Such a position establishes for those both outside and within the organization one official who is responsible for its administration. Although we have noted that one of the prime characteristics of *Independent Deciding and Advisory Bodies* is the collegial nature of decision-making, such collegiality does not, and in our view should not, extend to administrative decision-making and accountability. Accountability for administration demands that responsibilities be clearly

assigned and that a chief executive officer of the organization be clearly recognized. We recommend that

> **18.1 every constituent act of an *Independent Deciding and Advisory Body* designate one official as chief executive officer who will be responsible for the supervision and direction of the work and staff of the agency and be held accountable for the administration of the agency.**

Deciding and advisory bodies at present, although distinguished from departments by the independence granted to them for the performance of their responsibilities, are not, in general, distinguishable from departments with respect to managerial controls over such matters as staffing and budgeting. We see no reason to alter this situation and believe that the proposals made in this Report with respect to the management and accountability of departments will strengthen the managerial framework within which the chief executive officers of *Independent Deciding and Advisory Bodies* will be held accountable. These entities should be subject to Board of Management control with respect to matters of administrative policy, organization, and financial and personnel management. Although Board of Management supervision of such matters is necessary, there may be, and indeed there are, cases where such supervision needs to be circumscribed; exemptions should be granted only where clearly essential to the proper performance of an agency's responsibilities. We recommend that

> **18.2 unless specifically exempted in the constituent act, the authority of the Board of Management with respect to financial and personnel management in departments apply to Crown agencies in Category II, *Independent Deciding and Advisory Bodies*.**

Although there is little available evidence to suggest that it is a common occurrence, some members of these agencies indicated some concern that the budgetary process provides an opportunity whereby the discretion and priorities of these bodies can be unduly influenced. Subtle pressures, it was argued, can be exerted by departments and central agencies on deciding bodies through the Treasury Board budget approval process. While we endorse the approval of budgets as an important part of the management and financial accountability process, we do not believe that the budget

approval process is an appropriate instrument for controlling the policies and direction of independent deciding bodies. We are especially concerned that the inappropriate use of such a process may impair their adjudicative function and call into question their independence. The government already possesses sufficient means, which we recommend be augmented, to exercise direction and control over these bodies where such direction and control is necessary and legitimate. Control by means of the budget for these ends is to be strongly discouraged.

The second assumption we have made with reference to establishing an appropriate accountability régime for *Independent Deciding and Advisory Bodies* is that the special nature of their tasks, assigned to the collectivity and not to a particular member of the agency, necessitates a clear articulation of the degree of independence to be accorded each agency. As we indicated in Chapter 17, attention should first be directed to the mandate which states the purposes and objectives of the agency, defines the duties, and assigns powers. In all instances, organizations in this group have received their mandates directly in a constituent act or indirectly by Order in Council.

For some of these agencies, the constituent acts are relatively clear and unambiguous and the boundaries within which they operate are fairly specific. For others, however, the constituent acts are neither clear nor unambiguous. This is especially true of the largest subcategory, regulatory agencies, which more often than not are given only the most rudimentary guidance to determine such matters as "public convenience and necessity" or "the public interest". Even when more extensive guidelines are provided, enormous scope for interpretation is granted to these agencies. In such situations the agencies, by virtue of the substantial discretionary authority delegated to them, can become primary policy-makers. Indeed, in developing and refining their mandates, they can play a role not unlike that of Parliament itself.

We think it imperative that the primary instrument for overseeing, guiding, and ultimately evaluating the work of all *Independent Deciding and Advisory Bodies* be constituent legislation approved by Parliament. For such acts to be effective control mechanisms, however, they must define clearly and as specifically as possible the purposes and goals of the agencies, their duties, and the public policies they are to implement. Parliament should not

grant these agencies a blank cheque to make policies. We recommend that

> **18.3 when *Independent Deciding and Advisory Bodies* are established, the goals and public policies they are to implement, or be guided by, be clearly set out in their constituent acts.**

We recognize, of course, that it is not always possible to delineate public policies specifically in constituent acts. There are several obvious reasons. First, circumstances can change dramatically and unexpectedly, and these entities must be in a position to respond by interpreting their mandates to make them applicable to the new circumstances. Second, in many areas of activity, flexibility is needed to permit the adaptation of general rules to specific situations. Third, one of the reasons for creating such bodies is the need for specialized knowledge and judgement, and the constituent acts cannot be so detailed as to preclude the use of these in the decision-making process of such Crown agencies.

If we accept the need for some degree of flexibility and generality in the constituent acts and, therefore, the need to delegate a policy development role to specific bodies, we must still search for effective instruments by which those bodies will be accountable and subject to appropriate direction from the Government and Parliament. One such instrument is the control of regulations made under authority of the constituent acts. The power to make regulations, to define goals, establish standards, and prescribe rules by which the constituent acts will be implemented is commonplace in the acts establishing regulatory agencies and specialized adjudicative tribunals. For policy advisory/research agencies the breadth of discretion is not a matter of concern because the capacity to make decisions is virtually absent. Moreover, in the case of granting agencies, discretion is limited to individual cases and normally constrained by standards established by professional associations.

It is normal that such regulations be subject to approval by a designated minister or, more typically, by the Governor in Council. Indeed, an independent regulation-making power is highly exceptional in the Canadian parliamentary system; such a power would run counter to the principle that the Governor in Council is the principal regulation-making authority. This principle was

articulated by a Special Committee of the House of Commons on Statutory Instruments, which argued that "while independence is the hall-mark of the judicial branch of government, it should be quite alien to the executive branch. The government of the day should be fully responsible to Parliament, and through it to the people, for all subordinate laws which are made, whether or not the policy embodied therein was initiated within the existing departmental structure or elsewhere."† A similar defence of the requirement for governmental approval of regulations was advanced by the McRuer Royal Commission of Inquiry into Civil Rights in Ontario. Given this principle, we are concerned that the two regulatory agencies, the Canadian Radio-television and Telecommunications Commission (CRTC) and the Canadian Transport Commission (CTC), which the Government proposes to bring under greater control, possess independent power to make regulations and will continue to possess such powers even if the Government's proposed changes are enacted. The continued existence of such independent power is contrary not only to existing principles but to the Government's avowed intention to subject these agencies to more direct executive control. We recommend that

> **18.4 in cases where *Independent Deciding and Advisory Bodies* are authorized to make regulations, these be subject to Governor in Council approval before being promulgated.**

Although better drafting of constituent acts and Government approval of regulations can do much to ensure that *Independent Deciding and Advisory Bodies* remain responsive and accountable to political authorities on policy matters, there will be situations where neither of these control mechanisms will be adequate. General issues of policy may arise that individual regulations cannot address and upon which the constituent act may be silent. Such issues may involve re-ordering the priorities of the agencies, an elaboration of the meaning of sections of their acts, or, on occasion, instructions to a body to heed a part of its mandate that is being ignored. These are matters for which the Government and Parliament must accept responsibility. They cannot be left to be settled at the discretion of the agency, no matter how independent it is intended to be.

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† Canada. Parliament. *Third Report of the Special Committee on Statutory Instruments*. 1968-69, p. 34, 35.

While we would prefer that, when necessary, amendments to the constituent acts be the mechanism to accomplish these objectives, we recognize that the statutory amendment process has its own difficulties, especially in view of the already heavy demands made on the parliamentary timetable. Amending the acts may not always be a realistic alternative. In such circumstances, constituent acts should contain provisions allowing the government to issue directives to these agencies on broad policy matters.

The concept of a political directive to *Independent Deciding and Advisory Bodies* is not novel. The present constituent acts of regulatory agencies such as the CRTC and the Atomic Energy Control Board allow for some form of policy directive. Similarly, the acts establishing research and advisory bodies such as the Economic Council and the Science Council give the designated ministers authority to direct these bodies to study and report on matters within their mandate.

While the concept of political directives is not antithetical to the concept of *Independent Deciding and Advisory Bodies*, we think that certain safeguards must be established to protect these bodies against undue political interference in the performance of their responsibilities. We also believe that the present proposals of the Government pertaining to the CRTC and CTC regarding the directive instrument could undermine the integrity of these bodies. The Government's proposals are based on an assumption that these entities are simply extensions of the executive arm of government, an assumption we do not accept. These agencies are also creatures of Parliament, and, accordingly, Parliament should have some role to play in the directive process.

There are several safeguards necessary. We endorse the requirement in the Government's proposals that all directives be public, tabled in Parliament, published in the *Canada Gazette*, and that they not pertain to specific individual cases before deciding bodies but to broad policy matters. We believe that, in addition, there should be an opportunity for both the agency and the public to be consulted prior to the issuance of a directive.

The consultation that preceded them and the openness attendant upon the recent requests by the Government for reports from the CRTC and the CTC on the introduction of pay television and a preferred passenger rail plan respectively exemplify the model of the process that should be followed in the exercise of this directive power. We recommend that

18.5 the constituent acts of *Independent Deciding and Advisory Bodies* contain provisions allowing for policy directives from the Governor in Council; and that

18.6 prior to the issuance of a policy directive to an *Independent Deciding and Advisory Body*, the Government refer the matter to the agency, which may request public submissions thereon and shall make a public report within ninety days or such longer period as the Government may specify, and further, that such directives be published in the *Canada Gazette* and tabled in the House of Commons.

A régime that endeavours to lay down mandates in constituent acts, buttressed by Governor in Council approval of regulations, together with the use of the directive mechanisms we have recommended, should ensure that *Independent Deciding and Advisory Bodies* are subject to effective direction on matters of public policy without undermining the fundamental rationale for the creation of agencies with some degree of independence. If such instruments are in place, thereby establishing mechanisms for continuous surveillance and intervention on policy matters, we think that the time will come in the case of one subcategory, the regulatory agencies, to end an additional form of governmental control, appeals to designated ministers or the Governor in Council against individual decisions of these agencies. Such "political" appeals have been justified in the past primarily on the grounds that in a parliamentary system, elected officials must be ultimately responsible for the determination of public policies. We think the mechanisms we have recommended satisfy this need. Indeed, the Government has in part recognized the logic of this argument by proposing the abolition of appeals to the Minister of Transport from decisions of the CTC. The defence of political appeals on the grounds that they have been resorted to only occasionally fails both because it is irrelevant and in light of the fact that resort to them has increased dramatically in the past few years.

It has been argued, and we share such concerns, that the political appeal process suffers serious procedural defects with respect to matters such as notification to affected parties, their right to file arguments, and the need for a fair and impartial statement of the issue in question to the Cabinet. It has been

contended that these defects are serious enough to undermine not only the regulatory agencies, but the credibility of the regulatory process. Despite the fact that decisions are made in open hearings by the regulatory agencies, decisions on appeals are all made in private and subject to the requirements of Cabinet confidentiality. The result is that many of those involved and interested in the appeal process feel that they have been denied fair treatment. The integrity of these agencies will be undermined, as would the integrity of the courts, if the principle of open and impartial proceedings is not applied to the appeal process.

It is highly doubtful that an appropriate set of procedures to govern "political appeals" could be developed that would protect the integrity of the regulatory process without unduly adding to the burden on the Cabinet. Moreover, if such appeals are ended, departmental officials will be able to intervene on behalf of their ministers before these agencies in regular hearings of cases involving policy questions. The present appeal provisions seem effectively to preclude such intervention. The abolition of political appeals, of course, will in no way affect the continuation of appeals to the Federal Court and, with permission, to the Supreme Court on questions of law and natural justice. Accordingly, political appeals are not necessary to ensure procedural fairness. In the case of agencies in other subcategories where adjudication relating to individual rights or claims is involved, rather than regulation, there is an even stronger case for leaving judgements about "due process" in the courts. We recommend that

> **18.7 the right to appeal individual decisions of *regulatory* agencies to designated ministers or the Governor in Council be abolished.**

There is one potential instrument for influencing the mandate of a Crown agency which, while it has been proposed for only one regulatory agency, we do not consider appropriate. The Government's proposals concerning the CTC include the idea that the Governor in Council should be empowered to transfer any power performed by the CTC, except its licensing and rate-controlling powers, from the agency to the Minister of Transport. There is no proposal for parliamentary approval of such transfers. We fear that such a power, without safeguards, could be employed to interfere with the functions and performance of the CTC, and

similar bodies, if this provision were used as a precedent, and could again serve to undermine the regulatory process. Parliament creates these bodies and assigns their functions, and parliamentary approval should be sought for any transferring of their functions. Under the *Public Service Rearrangement and Transfer of Duties Act*, Parliament has authorized the transfer by Order in Council of a branch or division from one ministerial portfolio to another. While such Orders in Council are not now required to be tabled in Parliament, we believe that, at least where a major function or power is being removed from an *Independent Deciding or Advisory Body*, Parliament should be given the opportunity to approve the Government's decision. We recommend that

> **18.8 without abrogating the powers granted to the Governor in Council in the Public Service Rearrangement and Transfer of Duties Act, the transfer to a department or agency of government of any function assigned by statute to an *Independent Deciding and Advisory Body* require parliamentary approval.**

As we stated in Chapter 17, the Government's power to appoint and remove members of Crown agencies is one of its most important instruments for influencing the direction of these entities. Given the importance of appointments to the performance of the responsibilities of the agencies, and given that these appointments are for lengthy, fixed terms, subject to stringent conditions with respect to removal, great care must be taken in the appointment of members. Such appointments should ensure that a balance of skills, knowledge, experience, and viewpoints is represented.

Of all the appointments made to these agencies, the position of chairman is by far the most crucial. The chairman is normally the chief executive officer of the body and, by virtue of that position, can exercise enormous influence and leverage over its work and its staff. Given the significance of this position, there should be some checks on the Government's exercise of its appointment and removal powers. The purposes of such checks should be to ensure that the appointment process is employed in a meaningful and appropriate manner to influence the goals and priorities of the agencies. One possible check is a public parliamentary confirmation process of senior appointments to these bodies, a concept which has figured in the recent proposals by the Government for

constitutional reform. While not unsympathetic to this approach, we are not prepared to recommend it at this time. Public confirmation could be useful in assessing the background and qualifications of nominees, in eliciting their views on policy, and in informing them of the perceptions, needs, and priorities of parliamentarians. Unlike the United States, where it has been an important check on the executive branch of government, Canada has had virtually no experience with a public confirmation process. There is a danger in the Canadian setting, that this process could become highly partisan and deter experienced and competent individuals from permitting their names to be put forward, thus reducing the already small number of outstanding individuals who are able and willing to serve their country in this capacity. Parliamentary committees, under the scheme we propose later in this chapter, would have the opportunity to question members of regulatory agencies following the tabling of their annual reports and Estimates, and could use this exchange to inform them of parliamentary perceptions and needs. For the time being, therefore, we would not recommend the introduction of a confirmation process; our recommendations concerning Parliament should provide a sufficient counterbalance to the Government's appointment powers to ensure its careful and considered exercise.

A further safeguard for preserving the autonomy of chairmen and members of *Independent Deciding and Advisory Bodies* should not be overlooked. There are special provisions that permit the removal of incumbents only where cause for removal can be established. Although in most constituent acts the tenure of appointment is indicated as a fixed term during "good behaviour" and/or subject to removal "for cause", there are some fixed term appointments where there are no provisions governing the removal of an incumbent before the end of his term. Not only should such provisions be applied to all members of Crown agencies in this category but we would also commend the provision that applies now to some regulatory agencies whereby removal for cause must be confirmed by a joint resolution of both Houses. Particularly for the large subcategory of regulatory agencies, we believe that this degree of parliamentary involvement would be preferable to an initial confirmation procedure. We recommend that

18.9 all constituent acts of *Independent Deciding and Advisory Bodies* clearly stipulate that members shall be subject to removal only for cause and that in addition, for *regulatory*

agencies, such action be subject to a joint resolution of both Houses of Parliament.

The Government's use of appointment and removal as an instrument for controlling Crown agencies can be refined and sharpened if care is taken to evaluate performance during the terms of members of *Independent Deciding and Advisory Bodies*. Many chairmen of such agencies indicated to us that, until recently, they were not aware of any systematic evaluation of their performance, although some of them do evaluate the other members of their agencies for the Privy Council Office. The purpose of such evaluations, however, was clear neither to those who undertook them nor to those who were evaluated. In the case of some regulatory agencies and specialized adjudicative bodies, such evaluations cannot relate to the salaries of incumbents for, pursuant to the *Statutory Minimum Salaries Act*, the Government may not reduce the salary of an incumbent or reward through remuneration one member of a commission or tribunal more than another. We commend the proposal now being considered by the Government to extend the provisions of this act to all quasi-judicial tribunals.

The question of performance evaluations of chairmen and members of *Independant Deciding and Advisory Bodies* arouses valid concerns that such evaluations may tend to be based on individual decisions taken by members of these agencies rather than on general performance. Thus, the evaluation process might be interpreted as an occasion to exercise improper influence over the decisions made or advice given by members of these bodies.

While we are in complete agreement that performance evaluations should not be, nor appear to be, in conflict with the required independence for decision-making of individual members, we also think that the performance of incumbents in all but the most exceptional of cases should be subject to a meaningful process of evaluation. Such evaluation, however, will have no meaning unless the individual involved knows of the evaluation. With respect to chief executive officers of *Independent Deciding and Advisory Bodies*, we think that evaluation can and should be related to the performance by incumbents of their executive responsibilities. Effective performance of these responsibilities is crucial to the satisfactory performance by these agencies of their functions. At present, chief executive officers of these bodies are

appointed as members for terms ranging from five to ten years and are designated as chief executive officer for the length of their term. We believe that the terms of individuals as members and as chief executive officers should be distinct.

While we accept the principle that membership on these bodies should be for terms ranging from five to ten years, we do not believe that terms of such length are necessary or appropriate for the position of chief executive officer. A three-year term as chief executive officer is more appropriate. Evaluation of the administrative performance of this officer then could be undertaken to determine suitability for re-appointment to this position, an arrangement that we would not preclude. Where such re-appointment did not take place the individual affected could remain a member of the agency. Evaluation of chief executive officers would be conducted by the Committee of Senior Officials on Executive Personnel (COSO) for Cabinet consideration and decision in the same manner as applies to deputy heads of departments. The results of their evaluations should be discussed with the chief executive officers. We recommend that

> **18.10 the members of *Independent Deciding and Advisory Bodies* designated as chief executive officers be appointed to such positions for three-year terms, subject to renewal, and that their administrative performance be evaluated by the Committee of Senior Officials on Executive Personnel and its reports be submitted to the Cabinet when it is considering re-appointment.**

The responsibility for the evaluation of the performance of all other members of *Independent Deciding and Advisory Bodies* should rest with the chief executive officer of the agency. These evaluations should be undertaken annually to determine suitability to continue in the position or to aid in consideration for renewal or alternative appointment. Such evaluations should be discussed with the members and forwarded to COSO and the Cabinet. We recommend that

> **18.11 chief executive officers of *Independent Deciding and Advisory Bodies* undertake annual performance evaluations of the members of their agencies and that such evaluations be forwarded to COSO and the Cabinet.**

Reporting is the final element in an accountability régime. Those who would demand from Crown agencies an effective accounting must possess the necessary knowledge and information with which to judge their performance and determine the needs of these bodies. Increased and improved parliamentary surveillance of Crown agencies closes the accountability loop.

At present, the primary, and generally the only, contact between *Independent Deciding and Advisory Bodies* and Parliament occurs during the annual approval of Estimates. It is apparent to almost all the parties concerned that the present process of Estimates approval is an unsatisfactory means for accomplishing general and overall surveillance. We are convinced that there is much to be gained by all the participants from a more general analysis of the activities of these bodies and a closer scrutiny of their operational performance.

We think that Parliament's role in holding *Independent Deciding and Advisory Bodies* accountable for the overall performance of their responsibilities could be significantly improved by regular parliamentary assessments. The appropriate standing committees of the House of Commons should review the implementation of the mandates of the bodies and regularly assess the effectiveness of these entities in achieving public policy goals. They should inform Parliament and, through Parliament, the public, about the activities of these agencies; provide Parliament with information to assist it in making informed judgements on policy matters; and, provide a counterweight for these bodies to offset possible excessive departmental interference in their activities.

The heads of these bodies should provide technical support to their designated ministers when they appear at standing committees to defend their estimates. In addition, they should also account before the Public Accounts Committee for the manner in which they have discharged the administrative responsibilities specifically conferred on them. Such an accounting would be similar in scope to that which we have recommended for deputy heads of departments.

In order to facilitate parliamentary assessments, annual reporting to Parliament should be improved. There should be statutory guidelines for the preparation of annual reports. If the assessment process is to be effective, annual reports should not be simply summary records of past activities. Reports must be for-

ward-looking documents describing the objectives and plans of the agencies, and outlining in some detail how the agencies intend to accomplish their objectives and implement their plans. We recommend that

> **18.12 the annual reports of *Independent Deciding and Advisory Bodies* be automatically and permanently referred to the appropriate standing committees of the House of Commons, and that they provide a thorough description of the activities of the preceding year including both achievements and problems, a record of reports issued and directives received, and plans for the coming year.**

In addition to regular parliamentary assessments of these agencies, their constituent acts should be subject to a periodic review by both the Government and Parliament. Such a review of their functions and responsibilities should be comprehensive and systematic and should be a statutory requirement imposed on the designated minister. While such a review would not preclude the abolition of an agency, we do not believe that a universal, periodic, re-authorization requirement, as envisaged in so-called "sunset laws", is necessary for these agencies. A statutory requirement for a review and for the tabling of a report on this review in the House of Commons with automatic referral to the appropriate standing committee, will satisfy the need for a mechanism to force evaluations. Furthermore, such periodic reviews should be able to build on the regular parliamentary assessments conducted by the standing committees and supported by the more informative annual reports we have recommended. We recommend that

> **18.13 the designated minister be required to undertake a review of the functions and operations of *Independent Deciding and Advisory Bodies* not less than once every ten years, and further, that the results of such reviews be tabled in the House of Commons and be automatically and permanently referred to the appropriate standing committee.**

19

CROWN CORPORATIONS

The classification scheme for Crown agencies developed in Chapter 16 and summarized in Appendix A identified a category for *Crown Corporations*. They share a number of characteristics. They are incorporated by special statute, by letters patent or articles of incorporation under the *Canada Business Corporations Act* or comparable provincial enactments. They undertake tasks akin to those in the private sector, normally in a market setting. They are wholly-owned by the Crown in right of Canada, and responsibility for the care and management of the corporation is directly delegated to a board of directors, although the responsible minister can issue directives. Each is a separate employer, and is not subject to the *Public Service Employment Act*.

Applying these criteria, we identified 46 candidates, exclusive of their subsidiaries, for inclusion in this category. We have left aside the eight or so marketing and commodity trading agencies, even though most of them now have a corporate form. Our reason is that their tasks straddle both regulatory and commercial activities and we believe the Government should determine whether these bodies fit more appropriately into the accountability régime we have proposed for *Independent Deciding and Advisory Bodies*.

That the corporate form is extremely versatile in its capacity to manage a great variety of undertakings is amply demonstrated by the range and importance of the tasks assigned to the organizations we have categorized as *Crown Corporations*. We observe that half of the total group are involved in transportation, the provision of facilities and services for transporting people and goods by rail and air, or the provision of port and harbour facilities designed to service the needs of water transportation. The twenty-three bodies

associated with these services are all within the single portfolio of the Minister of Transport to whom, or through whom, each reports. The proposed addition of the Post Office Department to the ranks of Crown corporations would extend the reach of these agencies in the area of communications. Government financial institutions in corporate form range from a central bank to lending and guaranteeing activities for farmers, small businesses, housing, and export development. In manufacturing, *Crown Corporations* produce coins, airplanes, films, petroleum products, hydro-electric power, nuclear reactors, and nuclear materials. A government corporation operates the largest scientific research establishment in the country. An arts centre and several museums, as well as federally-owned real property in the national capital region are managed by *Crown Corporations*.

In terms of the resources placed at the disposal of this group of Crown agencies, the global figures are impressive. Assuming the transfer of the Post Office, which employs 68,000, from departmental to Crown corporate status, the total personnel employed by *Crown Corporations* comes to well over 200,000. Set against the 300,000 or so employees in *Ministerial and Other Designated Departments*, it is apparent that our earlier reference to "a second public service" is not an exaggeration. In certain sectors, such as transportation and storage or communications and utilities, where government enterprises are numerous, employment by *Crown Corporations* represents roughly one-quarter of the total labour force. The concentration of much of this *Crown Corporation* labour force in vital industries means that the consequences of collective bargaining are felt far beyond the limits of the particular corporation involved.

Crown Corporations also command an impressive share of the Government's budget. Their expenditures from appropriations in 1977-78 amounted to about one-seventh of the $38.9 billion appropriated for all of government's needs. They generated revenues of their own, close to $12 billion, while gross loans and advances to them came to an additional $3 billion. Out of total governmental assets of over $74 billion, the share controlled by *Crown Corporations* amounted to $29 billion.

The diversity of *Crown Corporation* undertakings belies the notion that, despite their common form of corporate organization, they are all "commercial" enterprises. Even where the tasks of *Crown Corporations* directly parallel those of private sector enter-

prises, as in broadcasting or operating an air service, they are engaged in something more than a business venture. Most are created as instruments of national purpose and that purpose, as expressed in their mandates, extends beyond the business at hand. Indeed, if this were not true, there would be little to justify government involvement in them.

Possibly the most distinctive feature of the evolution of Canadian public enterprises in corporate form is that, unlike the giant nationalized undertakings in the United Kingdom, for example, few occupy a monopolistic position with respect to their assigned tasks. As a consequence, government involvement in the Canadian economy, as developed through *Crown Corporations*, is a genuine reflection of a "mixed economy" where public and private ventures are operated in parallel, and normally in competition, with one another.

It is at this point that government, acting as entrepreneur through its *Crown Corporations*, coincides with government acting as regulator of the economy. Wherever government has moved to regulate a sector of the economy that is occupied by public and private undertakings, both groups come under the jurisdiction of those Crown agencies that we identified in the previous chapter as regulatory bodies. In a number of instances, it is possible that a regulatory instrumentality of government reports to a minister who is also designated as being responsible for the *Crown Corporation* that is subjected to regulation. The Atomic Energy Control Board regulates certain activities of Atomic Energy of Canada Ltd. and Eldorado Nuclear; all report through the same minister. Canadian National and Air Canada are regulated by the Canadian Transport Commission and all report to the Minister of Transport.

Because ministers, individually and collectively, must make the final determinations that affect the interpretation of the national interest, reconciliation of possible differences of that interpretation by a regulatory agency and by a *Crown Corporation* falling under its jurisdiction will have to occur at the ministerial level. Given that requirement, it is probably not unreasonable to find one minister faced with this arbitral task for two different agencies within his portfolio. Our purpose in calling attention to this phenomenon is that in designing an accountability régime for *Crown Corporations* it is important to recognize that, for genuinely commercial types of governmental undertakings, like their private sector counterparts, there is an accountability to an

independent regulatory body in matters such as rate setting or safety standards.

While government regulation is not unimportant in ensuring the accountability of some *Crown Corporations,* its presence does not eliminate the need to develop for them an accountability régime that is consistent both with the arm's length relationship that is thought desirable and with their role as instruments of public purpose. Canadian experience suggests, and practice elsewhere confirms, that when governments become involved in market-place operations, such as financial and lending activities, and particularly commercial and industrial undertakings, a sensible method of achieving administrative devolution is to entrust such tasks to a corporate board of directors. Not only are already overloaded departments relieved of the added burdens of unfamiliar tasks for which they may not be well suited, but the board form also establishes a "buffer" for the managers of such operations, thereby lessening bureaucratic and political interference with the continuing operations specifically conferred on the corporation's board. This buffer function is at least as important for those corporate organizations involved in sensitive areas like broadcasting or the arts as it is for the more strictly commercially-oriented corporations.

Clearly, in adopting the corporate form of organization, governments seek to take advantage of the autonomy, flexibility, and special skills that have made the private sector corporation the successful entrepreneurial instrument it can be. The *Crown Corporation,* however, differs from its private sector counterpart in a number of important and inescapable ways. It is an organizational hybrid with relationships with Government and Parliament that are neither clear nor simple and that differ, moreover, in significant ways from the normal relationship of a corporation with its shareholders.

While the corporate form offers a proven capability for efficient management of particular types of tasks that encourages governments to resort to its use, its adaptation to governmentally determined purposes creates problems that do not exist for private sector corporations. By law, directors and officers of all corporations have certain duties and obligations imposed upon them, but in public sector corporations, a board of directors not only assumes these same obligations but must contend with a designated minister, other ministers and central agencies, the Cabinet, and, ulti-

mately, Parliament. Obviously, the boards of Crown corporations are required to respond to the Crown as owner in a far more extensive and complicated way than is true for the private sector board's relations with corporate shareholders.

Herein lies the dilemma and challenge for the accountability of *Crown Corporations:* the managerial requirement for insulation from the political process can, at times, be in conflict with the need to be responsive to the national interest as determined by the Government. The boundaries between policy and management should be clearly recognized, for trespass imperils the successful functioning of the corporation and calls into question the very reason for adopting the corporate form. Yet, if the relationship between the *Crown Corporation* and its owners is such that the corporation cannot responsibly adjust its policies and objectives to the national interest, it fails in placing its special managerial attributes at the service of that interest. In the final analysis, the Government must accept responsibility and account to Parliament for decisions that determine what interpretation is to be placed on the national interest. It is this responsibility and this accountability that give form to the role of ministers and the Government with respect to *Crown Corporations*. It is the resolution of the tension, which must necessarily exist, between the duties of directors to the corporation and the national interest which the corporation exists to serve, that gives substance to the role of the political executive and underlines the essential difference between public sector and private sector corporate boards.

Years ago, Lord Macaulay remarked that the essence of responsible government was "to choose wisely and confide liberally", an injunction that would appear to be apposite for government in establishing appropriate working relations with, and an accountability régime for, its *Crown Corporations*. Although Government continues to espouse the corporate form of organization, it has sometimes been remiss in honouring Macaulay's dictum "to choose wisely" and, in recent years, has more explicitly demonstrated a reluctance to "confide liberally" by re-asserting controls that countermand the original direct delegation of powers to its board of directors.

Our own extensive investigation of these corporations and of official proposals for coping with them has convinced us that, if government is to secure real benefits from resorting to this

administrative form, two sets of fundamental decisions must be confronted squarely and clearly.

First, we believe that the board of directors for each *Crown Corporation* should have assigned to it a clear and unequivocal mandate, together with the attendant powers to manage and direct the operation. Just as we have had occasion to observe the inadequacy of planning and objective setting in departments, we find the same deficiencies apply to *Crown Corporations*. Unless tasks and objectives are clearly formulated, Governments will continue to harbour distrust of organizations to which they have entrusted, by liberal delegation, such extensive but ill-defined powers. Distrust then engenders increasingly extensive governmental intervention which undermines the managerial authority of the board.

The decision "to confide liberally" to the board of directors carries with it the assumption that the Government's power to appoint, evaluate, and remove directors will be exercised "wisely". But this decision, however carefully the appointment power is used, is not sufficient by itself to enable the Government to "confide liberally". A second decision is required to help restore confidence in the corporate form of administration. What is needed is an assurance that the corporate board is held accountable for those decisions that its mandate and delegated powers entitle it to make. Directors and officers of *Crown Corporations* need to know not only what they are accountable for, but how they are to be held to account. Comparable clarification is also required for ministers, the Governor in Council, central agencies and Parliament, if *Crown Corporations* are to be the efficient and responsible instruments of public purpose they are intended to be.

We trust that the elements of an accountability régime for *Crown Corporations*, to which we now turn, will harness the full potential of corporate boards so that carefully selected directors entrusted with clearly defined tasks will be in a position to make efficient, effective, and responsible contributions to the implementation of public purposes.

Accountability for Crown Corporations

We have identified what we believe to be the four essential elements of an accountability régime—**mandate, direction, con-**

trol, and **evaluation and reporting.** Our comments and recommendations are organized around these four elements, but, since they are interrelated, no attempt will be made to contain the flow of analysis in water-tight compartments.

Mandate We begin with the mandate for it is there that we find a statement of tasks and objectives, provision for the corporate organization, and a description of the powers conferred on the organization. If the mandate is unclear on any of these matters, the board of directors may be left with too much latitude to define its task and objectives, or the Government may over-compensate by constantly interfering with the board's responsibilities. In either event, the question of who is to be held accountable for what cannot be answered with any certainty.

Ideally, Parliament should approve the mandate for every *Crown Corporation*, as is indeed the case where individual constituent acts are used to establish a *Crown Corporation*. Involvement of Parliament at the moment of creation provides no guarantee, however, that the mandate will clearly define the nature of the task, the objectives to be met, and the powers to be delegated. Reference to the statutes shows that, with a few exceptions, mandates are deficient in providing even minimal guidance to *Crown Corporations* with respect to their purposes and objectives.

In the five situations where the Government has created a *Crown Corporation* by seeking incorporation through letters patent under the *Canada Business Corporations Act*, Parliament has had no say in approving the mandate; nor is there automatic provision for ensuring that Parliament has an opportunity to scrutinize the letters patent in which, presumably, there is a statement of purposes, objectives, and the relationship of the Government to the corporation.

While we find merit in employing the *Canada Business Corporations Act* as an alternative vehicle for launching a *Crown Corporation*, we take strong objection to the failure to publish and table in Parliament the legal instrument under which the corporation is to act and be held accountable. It is paradoxical that, in examining several of these legal instruments, we find they are much clearer and more precise than the constituent acts of most Crown corporations in defining task, purposes and objectives, and the relationship of the corporation to the Cabinet. The fault lies in the failure to make Parliament aware of them.

We should observe, further, that resort to the *Canada Business Corporations Act* should not be viewed by Government as an open invitation to launch corporate ventures at will. Under the predecessor to the *Canada Business Corporations Act,* the *Dominion Companies* (later the *Canada Corporations*) *Act*, only a minister whose own act empowered him to apply to the Governor in Council for permission to seek incorporation of a company was permitted to take this route. We understand that legal opinion is divided on this point but, with deference, we would submit that a return to the earlier practice is desirable. Parliament should give prior approval, in the departmental or constituent act, to permit a minister to recommend to the Governor in Council the incorporation of a company under the *Canada Business Corporation Act*.

We note that in at least two recent instances—Loto Canada and VIA Rail—the Government has adopted a procedure for incorporation generally referred to as "legislation by appropriation" or "$1 votes". In company with successive Auditors General, dating back at least to the 1950s, we find this procedure objectionable, even where, as in the case of Loto Canada, the letters patent (again scarcely visible from Parliament's perspective) are admirably clear and precise about the mandate of the corporation. The implementation of our recommendation with respect to the creation or acquisition of *Crown Corporations* should preclude this occurring in the future.

Closely related to the foregoing observations is the question of the right of these corporations themselves to create subsidiaries. If ministers, as we have just argued, should require statutory authorization to resort to the *Canada Business Corporations Act* for creating *Crown Corporations*, these parent corporations should require similar parliamentary sanction to create subsidiaries by means of that Act. Moreover, just as a minister must seek Governor in Council approval to incorporate, so should a *Crown Corporation* seek similar approval. Where letters patent or articles of incorporation are issued for subsidiaries we also see the need to table them in Parliament. In summary, with reference to mandate, we recommend that

19.1 in the constituent act, or letters patent issued under the Canada Business Corporations Act, for each *Crown Corporation*, the mandate provide a clear definition of the task, purposes, objectives, and powers devolved upon the corporation, and, where letters patent are used to constitute the

corporation, that these automatically be tabled in Parliament; and that

19.2 the creation of a *Crown Corporation* or subsidiary or the acquisition of a company by a *Crown Corporation* or subsidiary require express parliamentary sanction in the relevant departmental or *Crown Corporation* constituent act and prior Governor in Council approval.

Direction In the broadest sense, where the mandate defines task, purposes, and powers, it establishes the initial general direction for a Crown corporation. If our recommendations are implemented, there will still be a need to refine and interpret the mandate. For these purposes two important instruments should be set in place: a Corporate Strategic Plan and a ministerial power to issue directives to the corporation.

We find ourselves in complete agreement with the concept of corporate plans outlined in the Blue Paper on Crown Corporations. The Corporate Strategic Plan is essentially the vehicle for defining and refining the corporation's mandate. It should cover a period of three years, or longer, depending on the nature of the enterprise. The development of this plan is the responsibility of the chief executive officer, acting within policies established by the board of directors. The plan is presented to the board for its approval and then stands as the comprehensive strategic framework within which capital and operating budgets will be formulated. It should be updated annually, although we would not foresee radical changes in the plan from year to year.

While the precise nature of Corporate Strategic Plans will vary from one corporation to another, all should be expected to contain several basic components.

1) a situation review: the past year's performance, the environment ahead and the corporate outlook
2) a statement of corporate objectives, both general and specific
3) corporate strategies for moving the enterprise toward its objectives and for achieving its goals
4) corporate policies for implementation of strategies under certain prescribed circumstances
5) a strategic financial plan, outlining the cost, timing, and financing of proposed capital commitments required to implement strategies

The Blue Paper proposes that the corporate plan be approved by the Government. In contrast, we believe that governmental approval processes should be centred on the budget, an instrument requiring that specific decisions be taken. In our view, the value of the plan lies in its use as an instrument for direction-setting and, most important, as the medium for communicating a corporation's intentions to the designated minister. When the corporate plan is forwarded to the minister for his information, the opportunity is provided for him and his departmental officials to ascertain whether the corporation's strategy is consistent with the policy interests of the Government and to ensure that there will be no surprises when capital and operating budgets come to the minister for approval. The consultation engendered by the preparation and presentation of the Corporate Strategic Plan in no way constitutes an invasion of the prerogatives of the board; but at the same time, consultation keeps the minister sufficiently informed to enable him to carry his responsibilities for the corporation when the occasion demands, and to ensure that he has a full understanding of the corporation's performance and its outlook. We recommend that

> **19.3 the chief executive officer be responsible for preparing a *Corporate Strategic Plan* for the approval of the board and for the information of the designated minister.**

Adoption of this recommendation would be a departure from current practice, but the existence of this instrument should put in proper context the second instrument, the ministerial directive, which is also a major proposal contained in the Blue Paper. The power of directive is not new; Petro-Canada and Air Canada, for example, have provisions in their constituent acts that accord this power to the Government. What is new, and a matter upon which a number of Crown corporations have registered their concern with us, is the proposal to apply the power to all such corporations.

The rationale upon which the directive power is based is that Crown corporations are instruments of national purpose and that the interpretation of national purpose, in the context of each corporation's specific mandate, must, in the last analysis, rest with the Government, which is responsible to Parliament for its decisions in this regard. We do not dispute this contention; however, we believe that the power of directive is essentially an instrument of last resort to be used sparingly by Government and subject to clearly defined constraints.

The adoption of the corporate planning process we have recommended should open the door to communication and consultation between corporation and Government. This process, when formally established and fully understood by both parties, should head off the need to resort to directives. A directive is more likely to be issued at the request of the corporation rather than come as an arbitrary thunderbolt from the Government.

We are disposed to this view by two considerations. The first is that the over-riding duty of directors of *Crown Corporations*, like that of directors in the private sector, must be to act in the best interests of the corporation. Here we differ fundamentally from the position put forward by the Government in the Blue Paper. The Government's proposal is that the directors of Crown corporations act first "in the best interests of Canada", and secondarily, "in the best interests of the Crown corporation . . . insofar as [they are] not incompatible with the best interests of Canada". We do not agree that the duties of directors of Crown corporations can be different from those that the *Canada Business Corporations Act* sets down in Section 117 for other directors. That section states that "every director and officer of a corporation, in exercising his powers and discharging his duties shall (a) act honestly and in good faith with a view to the *best interest of the corporation*; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances."* However, because Crown corporations exist to serve broad public purposes and the national interest, Parliament, but more usually ministers acting with Parliament's confidence, may have national interest objectives which they wish to superimpose on those of the corporation. These national interest objectives must be taken into consideration by the directors of *Crown Corporations* when these objectives are clearly identified and not in conflict with their legal responsibilities. If they are in conflict, however, the Government will have to decide which should prevail. In such circumstances, a board would be wise to seek a directive from the Government that at the same time would excuse the directors from liability with respect to the duties imposed on them by the *Canada Business Corporations Act*.

The second consideration which we believe would lead corporate boards to seek directives from Government relates to the

* Our emphasis.

vagueness and generality of mandates. Even if more effort is made to clarify mandates, there will inevitably be a penumbra of doubt when it comes to interpreting and refining them. As we have suggested, we believe that the existence of a corporate planning process should normally provide a means of mediating differences between the corporation and the Government as to the interpretation of mandate. In the event that such differences cannot be resolved through consultation or where the corporation is unwilling to proceed because it is not clear about the Government's policy, then again it would seem the better part of wisdom to seek clarification from the Government in the form of a directive.

In situations where the implementation of a directive by a corporation results in additional, identifiable costs, provision should be made, as the Blue Paper recommends, for fair and reasonable compensation to the corporation, subject to independent arbitration if agreement cannot be reached between the minister and the corporation.

In the final analysis, the directive power, as an instrument for making the corporation conform to the Government's definition of national purpose, is a power for the exercise of which the Government must be held accountable. To this end, directives should be approved by the Governor in Council, tabled in Parliament, and duly recorded in the annual report of the corporation.

We have noted the concern expressed to us by some Crown corporations that the power to issue directives constitutes the thin edge of the wedge of political interference with the prerogatives of the board. From the perspective we have described, with the existence of corporate planning, and with the safeguards of publicity and fair compensation where relevant, we believe that these concerns should be allayed. Indeed, rather than constituting additional exposure to interference, the directive used in the fashion we have suggested should, in fact, be a protection for the board against ad hoc or irresponsible interventions. Accordingly, we recommend that

> **19.4 directives issued to a *Crown Corporation* by the designated minister be subject to Governor in Council approval, be tabled forthwith in Parliament, and be duly recorded in the annual report of the corporation; and that**
>
> **19.5 directives issued to a *Crown Corporation* be binding on the corporation but that they relieve the directors of their**

responsibility in the matter, and that, where directives result in additional costs to the corporation, compensation on an agreed or independently arbitrated basis be awarded.

Control We indicated in a previous chapter that it is the element of control in an accountability régime for *Crown Corporations* that is most likely to violate the autonomy of such organizations and raise the risk of undermining the reason for their existence. We also observed that control exercised by the Governement over the continuing operations of the corporation should be minimized if the full benefits of delegating the care and management of an enterprise to a corporate board are to be realized. We have concluded that with fuller attention paid to formulating and clarifying mandate and with proper use of the control instruments, the Corporate Strategic Plan and the ministerial directive, the need for detailed control over on-going operations should be minimized.

This suggestion of a "hands-off" posture towards *Crown Corporations* does not mean that Government is deprived of all instruments of control. Indeed, the Government's undisputed right to appoint and replace members of corporate boards is possibly its strongest instrument, and when used wisely it can reduce the need to use other controls that might constitute serious invasions of the powers delegated to boards.

The appointment power vested in the Government is consistent with its role as shareholder/owner. As we explained in our introductory comments to this chapter, if Government is to rely on the corporate form of organization as a means of bringing special talent and skills to the service of the public interest, it will have to place genuine trust in the boards of directors. This trust cannot be established or maintained unless care is taken in selecting directors; without it, governement will eventually abrogate the delegation of powers to boards by introducing detailed controls. At that point, one could genuinely question the wisdom of resorting to the corporate form.

Only through the selection of board members with a variety of experience, background, and outstanding competence, and reflecting the interests of differing constituencies, will the board form approach its potential as a source of responsive guidance and sound managerial direction. Nevertheless, with respect to the

corporation, board members should represent no other interests than those of the corporation itself.

This raises the question of the appointment of public servants to boards of directors. While in some cases the practice may prove workable, there are serious limitations. We find it difficult, for example, to see how a senior official from a central agency can serve on the board of commercial *Crown Corporation* when he must also serve in his own departmental capacity as adviser on financial and operating decisions that involve the corporation. We also find unacceptable the concept of the ex officio director, that is, the non-responsible watchdog. All directors must be of equal status; they must vote, abstain when conflicts of interest exist, and protect the confidences of the corporation. To the extent that public servants can carry out the full responsibilities and assume the accompanying liabilities of board members, we cannot question their appointment; but in fact, this is seldom likely to be the case and it therefore remains a serious issue in the proper functioning and accountability of boards. Finally, as is the practice in the private sector, we endorse a board comprising a majority of non-management members, with only the chairman, chief executive officer and possibly one additional officer appointed to the board.

We believe the chairman of the board should provide the formal link between the board and the designated minister. Consistent with the responsibilities of the board to the minister and the Government and the fact that the corporation is wholly owned by the Crown and thus has a single effective shareholder, we fully support the traditional arrangements whereby the chairman is appointed by Governor in Council. Further, we would urge that such an appointment be made only after the board has been consulted by the designated minister. Indeed, the chairman ideally should be selected from among the incumbent members of the board of directors in order to ensure that he has prior knowledge of the workings of the corporation over whose board he is being called upon to preside. We also feel that the responsibilities of a chairman, which include liaising with the Government and Parliament, dealing with matters of mandate, the corporate plan, and reporting, as well as running an effective board with its important committee responsibilities, are separate and distinct from the responsibilities of a chief executive officer, particularly in the major *Crown Corporations*. Therefore, with regard to the appoint-

ment of directors and chairmen of the boards of *Crown Corporations* we recommend that

19.6 directors of *Crown Corporations* be appointed for three year staggered terms by the Governor in Council on the recommendation of the designated minister, after consultation with the chairman of the board of directors; and that

19.7 the chairman of the board of directors of a *Crown Corporation* be appointed by the Governor in Council after consultation with the board.

These recommendations do not represent a departure, apart from the more formal involvement of the board in the selection of the chairman and a clarification of the role of chairman with respect to the composition and management of the board. What is new is that we have deliberately omitted the appointment of the chief executive officer by the Government. Just as we feel that the Government must use the instrument of appointment to control the composition of a board of directors and declare who shall be its chairman, so we believe that the board of directors should use the instrument of appointment of the chief executive officer to manifest its responsibility for the care and management of the corporation. One of the most important responsibilities of the board is to put management in place, monitor and support management's performance, and to change management when required. If the integrity of the board's responsibilities in these areas is to be preserved, then they should not be shared. In turn, management must be made responsible and accountable to the board of directors.

We believe that by placing the effective power to appoint and remove the chief executive officer in the hands of the board of directors, we would be imposing a responsibility on the board completely in keeping with the delegation of care and management of the corporation to it. At the same time, this arrangement would clarify the accountability of managers, through the chief executive officer, to the board, a hitherto hazy area. While acknowledging the novelty of this proposal, we emphasize that it is a logical outcome of our stated intention to treat the corporate board seriously and to "confide liberally" to it. We therefore recommend that

19.8 subject to confirmation by the Governor in Council on the recommendation of the designated minister, the chief executive officer of a *Crown Corporation* be appointed and removed by the board of directors of the corporation; and that

19.9 the president of a *Crown Corporation* be chief executive officer, and that his remuneration, together with that of the chairman of the board, be fixed by the board of directors within ranges approved by the Governor in Council, such ranges to be determined on the recommendation of independent advisers.

While the exercise by Government of the power to appoint chairmen and directors of corporate boards is the most direct and most potent control over *Crown Corporations*, control in other significant areas is exercised through approval procedures. These procedures are invoked in respect of budgets, both capital and operating, bylaws, corporate policies, and codes of conduct. They are not invoked with respect to the management of the personnel of a *Crown Corporation* for each corporation is, or should be, an independent employer. Its employees, for purposes of collective bargaining, are, or should be, subject to the requirements of the *Canada Labour Code*.

The method by which capital and operating budgets of Crown corporations are dealt with touches a sensitive area, because the corporation's need for autonomy may have to be seriously compromised by the Government's responsibility for the Fiscal Plan and related expenditure ceilings. Moreover, whenever a corporation seeks appropriations, either for capital or operating purposes, it must inevitably be drawn into the parliamentary arena where it is necessarily represented by the Government.

Capital Budgets The capital budget is the focus of the decision-making process by which the use of productive assets is planned, analyzed, and eventually developed. Capital investment decisions involve the commitment of present funds in expectation of future returns. The essence of capital budgeting lies in determining how much will be spent and for what purposes. For several of the major commercially-oriented *Crown Corporations,* decisions may involve substantial capital commitments, such as the acquisition of rolling stock by Canadian National, new aircraft by Air Canada, or refining capacity for Eldorado Nuclear.

The capital required by *Crown Corporations* for such purposes may be provided by loans or advances from the government, external borrowing on the capital market, or by appropriations from the Consolidated Revenue Fund. No matter which mode of financing is used, each represents an obligation on the public purse. For this reason, all Crown corporations are now required to submit their capital budgets to the Government for approval.

Since capital budgets provide both an overview and supporting detail, in financial terms, of the major plans and strategies of Crown corporations, the Government, in reviewing and approving them, is given an opportunity to inform itself on such matters as investment and financing policy, and the policy concerning the use of revenues. The approval process has thus become the Government's major method of influencing the directions taken by corporations.

It should be recognized, however, that the capital budgeting process is a blunt and rather inappropriate instrument for ensuring control over the policy direction of Crown corporations. As the complicated procedure for reviewing and approving capital budgets proceeds, many parts of the system become involved and we have heard numerous expressions of dissatisfaction and frustration from both government and Crown corporation officials. On the government side there is dissatisfaction with the form and content of the capital budgets presented for consideration and approval. On the corporation side, there is frustration with the delays encountered in securing approval at so many levels, and a sense that the involvement of these "external" examiners leads to an undue intrusion on the prerogatives of the boards of directors.

We can understand government dissatisfaction with the present form and content of capital budgets, but we do not agree with the solution recommended in the Blue Paper, that the Treasury Board lay down a standard format for capital budgets. Once again, we believe that this is a matter that is squarely within the responsibilities of boards of directors. In any case, a standard format for capital budgets, where the variety of corporate undertakings is so great, would seem to be undesirable. We agree that current concern over the quality of budgeting information is valid; however, we believe that the best stimulus to improvement lies in imposing on the board of directors the responsibility for determining the quality and content of budgetary information in accord-

ance with the highest standards observed by similar enterprises in the same sector of the economy.

The frustration with the approval process expressed by Crown corporations is a problem to which there is no easy solution. In the first instance, the capital budget prepared by the chief executive officer in accordance with the Corporate Strategic Plan should be reviewed and approved by the board of directors and then submitted to the designated minister for his scrutiny and approval. There can be no escape from this minimal approval procedure; the minister is more than an intermediary through whom the corporation reports to Parliament. He must be in a position to answer for the direction being taken by *Crown Corporations* within his portfolio and to assure Parliament that the plans and projects being underwritten by the capital budget have met with his approval.

Beyond the approval of the minister, all capital budgets of *Crown Corporations* should be approved by the Minister of Finance, acting, in one sense, as the banker for the corporations, and, in a larger sense, in conformity with his responsibility for fiscal management. In addition, where capital budgets entail an appropriation, we see the need also for approval by the Board of Management because of its responsibility for preparing the Consolidated Estimates for presentation to Cabinet and ultimately to Parliament for scrutiny and approval.

Operating Budgets Operating budgets of *Crown Corporations* are met either out of revenues generated by the enterprise or, more usually, out of a mixture of internally generated revenues and appropriations. For *Crown Corporations* that are financially self-sufficient and regularly operate without appropriations, the approval process should be relatively straightforward. The board's responsibility for the care and management of the corporation carries with it the responsibility for seeing that the chief executive officer prepares the operating budget, and for approving it as the framework within which responsibilities are assigned, goals set, and performance monitored under the direction of the chief executive officer. In this situation, operating budgets should be transmitted to the designated minister for his information.

In the more common situation where *Crown Corporations* are dependent, at least in part, on appropriations, the operating budget prepared by the chief executive officer and approved by the board would have to go to the minister for his approval and signature.

Although the funds to cover these budgets may not be part of the appropriations intended for his department, it is still the responsibility of the designated minister to present these requests to Parliament. Further, since final responsibility for the Consolidated Estimates rests with the Board of Management, its approval must be secured before Governor in Council approval and tabling in the legislature. Should significant changes in the original budget require additional funding through supplementary estimates, the same approval process would apply.

In essence, this description of the approval process for capital and operating budgets of *Crown Corporations* conforms with that contained in the Government's Blue Paper, with the exception that we would assign responsibility for the format and contents of both budgets to individual boards of directors, rather than to a central agency. We believe that this arrangement will produce the needed improvements, yet leave each board a degree of freedom to develop budget presentations that are up to the highest standards appropriate to their particular enterprise.

We recognize that for all *Crown Corporations*, save for the few that are totally self-sufficient in meeting their operational needs, the process for approving operating budgets is in no way different from that proposed for departments. We admit that retention of the somewhat cumbersome and extended approval procedure runs the risk of doing violence to the autonomy of the board. We see two factors, however, that should go some way toward lessening this risk. First, by giving responsibility to the board for budget format and contents, (and all that this implies, including the development of the corporation's form of accounts, internal audit, and the like) we believe that approval should not have to descend to the level of detail that has characterized the departmental budget process in the past. The second mitigating factor derives from what we have recommended with respect to improving the budgeting exercise of departments. Because they will be operating within expenditure ceilings, couched in terms of strategic plans, they will be relieved of the detailed interference in their budget plans to which they are now subjected. Just as our recommendations are designed to liberate departmental managers and at the same time make them more accountable, corporate boards, already ostensibly vested with this freedom to manage, must be made responsible and accountable. Otherwise, every new control from the centre constitutes in effect a withdrawal of the

responsibility vested in the agency and lessens the accountability that can be exacted.

The following recommendations summarize the main features of the budgetary approval process we have elaborated. We recommend that

> **19.10 the board of directors of a *Crown Corporation* be responsible for establishing the form and contents of the capital and operating budgets based on the highest accepted standards; that**
>
> **19.11 the capital budget, when appropriations are not required, be approved by the board of directors, submitted to the designated minister and the Minister of Finance for review and approval, and thereafter be submitted to the Governor in Council for approval and subsequent tabling in Parliament at the same time as the Estimates; that**
>
> **19.12 the capital budget, when appropriations are required, be approved by the board of directors, submitted to the designated minister, the Minister of Finance, and the Board of Management for review and approval, and thereafter be submitted to the Governor in Council for approval and subsequent tabling in Parliament with the Estimates; that**
>
> **19.13 the operating budget, when appropriations are not required, be approved by the board of directors, be presented to the designated minister for information, and be assigned to the chief executive officer for implementation; and that**
>
> **19.14 the operating budget, when appropriations are required, be approved by the board of directors, and forwarded to the designated minister for his approval and subsequent transmission to the Board of Management and the Governor in Council for their approval prior to tabling in Parliament, and that all approval procedures be completed before the budget is assigned to the chief executive officer for implementation.**

Less salient than the control exercised by the Government through its power to appoint and remove members of boards of directors and to approve budgets, are the powers that the Government possesses with respect to bylaws, corporate policies, and codes of conduct.

The constitutent acts of many *Crown Corporations* as well as the *Canada Business Corporations Act* assign the board the power to make bylaws that establish the general approach to carrying out corporate functions. At present, the arrangements by which the Government approves bylaws are inconsistent. In the case of several corporations, including Air Canada, the Federal Business Development Bank, and Petro-Canada, the ultimate authority for the approval of bylaws rests with the Governor in Council. For some corporations this authority is vested in the board or, effectively, in the minister. Because some bylaws give further definition to the mandate and powers of the corporation, the bylaws of *Crown Corporations*, once approved by the board of directors, should be submitted through the minister for Governor in Council approval. Any requirement that such bylaws cannot take effect until such approval is granted is, however, too restrictive, and we propose that bylaws take effect once approved by the board, subject to subsequent ratification by the Governor in Council. This approach is in accordance with the *Canada Business Corporations Act* and allows the corporation to get on with the business at hand without impairing the Government's ability to approve or disapprove. We recommend that

> **19.15 *Crown Corporation* bylaws take effect on approval by the board of directors, but that they require subsequent ratification by the Governor in Council and tabling in Parliament.**

Corporate policies are a guide to action in carrying out the strategic plans of a company. In fact, policies carefully geared to strategy facilitate delegation because they provide people in an organization with an essential understanding of what their actions should be in prescribed circumstances and of what constraints are placed on those actions. Corporate policies can interpret the mandate, establish goals, and provide a wide frame of reference for decision-making and planning. The development of corporate policies should command significant time and attention of senior managers and the board of directors. The chief executive officer should develop policy proposals for review and approval by the board of directors and a policy manual should be maintained.

Questions surrounding the appropriateness and applicability of corporate codes of conduct have been raised as a result of the

recent investigations by the Public Accounts Committee into the international activities of Polysar and AECL. The widely accepted conclusion, which we endorse, is that explicit and up-to-date codes need to be established by the boards of directors of *Crown Corporations*. These codes should establish policy for such matters as the method of making payments; the recording of transactions; contributions, gifts and the provision of free services; the use and control of agency arrangements, including authority for payments to agents; and, compliance with the laws of other countries. Such codes should be developed within each Corporation to meet its particular requirements and should contain provisions to ensure audit and compliance. The minister should receive a copy and should be able to request, in writing, that the board make changes in the code if they are not in accordance with stated Government policy. Once accepted by the board, application of the code, including changes proposed by the minister, should become the responsibility of the board. We recommend that

> **19.16 codes of conduct and a system of compliance be prepared by *Crown Corporations*, approved by the board of directors, and agreed with the minister, and that monitoring of compliance be the responsibility of the board.**

Reporting and Evaluation This fourth element provides the final link in the chain of accountability. No matter who is to perform the evaluation function, it is clear that evaluation will only be meaningful if it is based on full and comprehensive reports.

The conventional form of evaluation is through a process of audit which has internal and external components. Internally, as an important part of the responsibility of the directors for the care and management of the corporation, the board should have approved its own accounts and accounting procedures consistent with the best practices prevailing in the sector in which their corporation participates. The Blue Paper has suggested that accounting practices should be decided by the directors but approved by the Treasury Board. We believe that it would be preferable to leave this matter to the board of directors, relying on the standards of the Canadian Institute of Chartered Accountants and the board members' own knowledge of accounting principles and practices. In this area there is a current ferment of interest among accounting professionals concerning improvements, par-

ticularly as they relate to adequate disclosure. Some of these are already being put in place as a result of requirements imposed by securities commissions and other regulatory agencies. With these external pressures, and the added pressure that the Auditor General can assert in commenting on the appropriateness of the accounting practices followed, we feel that the necessary improvements will be made.

Most boards of *Crown Corporations* have appointed audit committees made up of outside directors. This practice should apply to all and we therefore recommend, with respect to internal audit, that

> **19.17 all *Crown Corporations* appoint audit committees made up of outside directors.**

For many *Crown Corporations* the external auditor is the Auditor General who is usually named in the constituent act. In other cases, such as for organizations incorporated under letters patent or for which the Governor in Council is the appointing authority, either the Auditor General or an outside firm may be selected. There is a unique provision in the constituent act of the Canadian National Railways, for Parliament to name the external auditor. Some of the other major *Crown Corporations*, such as Air Canada and the Federal Business Development Bank, employ private accounting firms to audit their operations.

In testimony before us, officers of *Crown Corporations* have pointed to the value that accrues to them of having auditors who have experience with, and exposure to, related ventures that they also audit. We have been impressed with this view and find no reason to propose any alteration in current arrangements other than the need to recognize, where it is not now provided, the authority of the Governor in Council to appoint the external auditor, on the recommendation of the board of directors.

The relationship of the external auditor to the internal audit should be clearly formulated. The external auditor should be informed of all audit committee meetings and should have the right to attend. He should also be empowered to call a meeting of the committee, and should report directly to the board of directors or to the designated minister on any significant unresolved issues. In those cases where the Auditor General is not the external auditor, there are sound precedents in the private sector that would

give him access to the reports of outside auditors. In the private sector, when a holding company and its subsidiaries employ different auditors, the parent company's auditor has access to the reports of the subsidiary's auditor. The same arrangement should prevail with respect to the Auditor General, and his staff should be able to meet with the outside auditors of a corporation to discuss any pertinent issues that might arise. In this connection, while we are not unsympathetic to the Auditor General's views on comprehensive auditing, we feel that, until there has been more experience with this relatively new approach, the standards of auditing within and for *Crown Corporations* should be comparable to those in enterprises with which they compete. With respect to the external audit, therefore, we recommend that

> **19.18 the Governor in Council appoint the external auditor on the recommendation of the board of directors, except where the auditor is already named in constituent legislation; and,**
>
> **19.19 the Auditor General, where he is not named as the external auditor, have access to the audit reports of outside auditors of *Crown Corporations*.**

While the process of auditing and the reports to which it gives rise are important contributions to the accounting of *Crown Corporations,* there is still to be considered a broader form of reporting and evaluation which also has both internal and external implications. We refer to the constant flow of communication within a corporation that enables the board of directors to fulfil its care and management functions in accordance with its mandate. The board should receive monthly financial statements that indicate the status of the corporation with respect to key budget indicators and that comment on major activities and significant deviations from the corporate plan. The board should expect to receive exception reports when unexpected events occur that may impinge on the performance of the corporation. Matters of substance arising from these reports should be brought to the attention of the board of directors and the designated minister. Neither he nor the board should have to live with surprises.

Provision exists in most constituent acts for the designated minister to request reports at his discretion. We believe that as trustee shareholder he should receive quarterly financial state-

ments from the *Crown Corporations* in his portfolio. We do not agree with the Blue Book proposal that the Treasury Board establish the standards for these reports or for the annual reports of Crown corporations. The chief executive officer should be responsible for preparing such statements under reporting standards set by the board of directors. We believe that this procedure is consistent with the responsibility imposed upon the board of directors for the financial integrity of the corporation. If those reviewing the reports find they are inadequate, a board of directors that wilfully refused to disclose required information would be derelict in its duties.

The annual report of a *Crown Corporation* should provide the crowning piece to an accountability régime. Indeed, under requirements of their constituent legislation or the *Canada Business Corporations Act,* all *Crown Corporations* must submit annual reports through their designated minister for tabling in Parliament. In a few cases, as with deHavilland and Canadair, which were purchased by the Government as on-going entities, such a provision may be absent. We would urge that reporting requirements be consistent for all *Crown Corporations*.

Establishing a legal requirement for an annual report does not, in itself, obviate the criticism that many reports fail to meet an acceptable private sector standard, let alone a standard that should be a model for the private sector. We do not believe that the standards of reporting can be improved by central agency fiat, although consultation between the board and central agency on this matter is clearly warranted. Again, to be consistent with the responsibilities imposed on the board of directors, the annual report should be a matter of high priority for the board. It should be through the quality and contents of the annual report that a board's performance is judged, both internally by Government and externally by Parliament and the public. In the end it is the persuasive power of disclosure and publicity that forces a responsible body to pay attention; and paying attention, as we have argued, is the attitude that a régime of accountability is designed to foster.

The annual report, prepared by the chief executive officer and approved by the board of directors, should go to the minister for tabling in Parliament, as is now the general practice. In addition to the auditor's statement, prepared in accordance with the standards of the Canadian Institute of Chartered Accountants, the report

should include a brief version of the Corporate Strategic Plan, an indication of any directives that have been issued, together with a full disclosure of current activities and their relation to, or deviation from, the plan.

We have previously noted that many *Crown Corporations* have subsidiaries and their proliferation has necessitated an anxious hunt through the underbrush, on the part of the Treasury Board Secretariat, to bring them to light. In addition to our earlier recommendation that bears on the legal basis for creating such subsidiaries, we recommend that

> **19.20 every subsidiary be listed with its parent in the *Crown Corporations* category, and that the financial statements of all subsidiaries on both a consolidated and unconsolidated basis be included in the parent corporation's annual report.**

The annual report, with the amplified disclosure of information we have proposed, would become a more meaningful basis for evaluating the performance of the corporation. For the designated minister, the report, together with the Corporate Strategic Plan, which would have been previously submitted to him, the capital and operating budgets, the quarterly financial statements, and other special reports, should place him in a position to be fully apprised of the corporation's operations, their consistency with Government policy, and their relation to the Government's financial position. Surely a minister, and a Government, need no more upon which to base their judgements about the performance of the board of directors and the officers of a corporation. Receipt of the annual report by the minister should provide him with an opportunity to meet with the board and the chief executive officer, to review the performance of the corporation and to raise questions about its corporate plans, its strategy, and its general financial status. This formal two-way interchange should not be perfunctory, but should be approached by the minister and his officials, as well as by the board of directors, as seriously as a student should confront his final examinations.

In the final analysis, the annual report of a *Crown Corporation* is a public document; it is tabled in Parliament. We suggest that in a few instances there might be merit in the corporation convening a public, annual general meeting at the time of tabling

the annual report. Both the corporation and the interested public could well benefit from a meeting held in an atmosphere of openness and realistic accounting.

It is within Parliament, however, the ultimate guardian of the public purse, that the annual reports of *Crown Corporations* should take on more meaning. In the vernacular of the House of Commons a report "lies on the table" and unfortunately this expression conveys quite literally what normally happens to such reports: they just lie there.

We have argued for a more direct reporting relationship between the chief administrative officers of departments and Parliament, and particularly its Public Accounts Committee, and we believe that the same opportunities should be afforded *Crown Corporations*. An annual report, re-cast and amplified in the ways we have recommended, should be the basis upon which both the Public Accounts Committee and the relevant standing committees of the House of Commons call the corporation and the designated ministers to account for their respective responsibilities. In Part V we examine the ways in which Parliament can be restored to its rightful position at the end of this accountability chain.

When, at the outset, we dealt with mandates for *Crown Corporations* we indicated the role Parliament should play in the establishment of corporate bodies. Coming full circle, we visualize Parliament being given the opportunity to review these mandates, in much the same fashion as we have proposed for the *Independent Deciding and Advisory Bodies*. We believe it should be a duty, statutorily imposed on the designated minister, to bring forward at least once every ten years, a report on each of the *Crown Corporations* within his portfolio. His report would constitute the basis upon which a parliamentary committee would undertake a thorough re-appraisal of the mandate and explore the possibility that the mandate needed amendment, or, indeed, that the agency could be phased out. We recommend, therefore, that

> **19.21 the designated minister be required to undertake a review of the mandate and operations of *Crown Corporations* not less than once every ten years and further that the results of such reviews be tabled in Parliament and referred automatically for study and appropriate action to the relevant standing committee.**

The accountability régime that we have developed for *Crown Corporations* is focussed in the board of directors. Corporate boards in both the private and public sectors have recently been subject to criticism for their inability to provide an active counter-balance to management or an effective source of counsel for managers. Boards today, both on their own initiative and in response to external requirements, are taking on a new independence and a positive role in the guidance and monitoring of corporate performance. We consider that the trust placed in boards by our recommendations is in line with this trend and should encourage the appointment of individuals of established capacity and competence to them.

Nevertheless, the delegation of powers that flows to boards of directors as a result of this trust will always be subject to withdrawal by Government if there are indications that the trust is misplaced. Accordingly, Government must have the means available to it to assure itself and the public that boards of directors are responsibly exercising the powers entrusted to them in accordance with declared public policies for which Government, in the end, must accept responsibility. That assurance, we believe, can be provided by the accountability régime for *Crown Corporations* we have described here.

20

SHARED ENTERPRISES AND QUASI-PUBLIC CORPORATIONS

The Treasury Board Secretariat lists of government corporations make it clear that, beyond the boundaries of the present Crown corporation schedules, there exist many corporate entities that, in the Government's view, fall under some measure of Government control. Our placement of all wholly-owned corporations in the *Crown Corporations* category takes care of some of the entities listed as "Other Government Corporations"; but even with these recommended changes in the status of wholly-owned corporations, and a number of other agencies such as the Bank of Canada and the National Farm Products Marketing Council, over one hundred corporate entities remain to be categorized. To complete our proposals concerning a management and accountability framework for Crown agencies, we must turn our attention to those corporate entities listed by Treasury Board Secretariat as "Other Government Corporations", "Mixed Enterprises", and "Other Entities and Associates". They constitute a mixed bag which has never been carefully sorted or classified by Government. It is our belief that most of these corporations can be included in the category *Shared Enterprises* or identified as *Quasi-public Corporations*.

Shared Enterprises include entities such as the Canada Development Corporation, Telesat Canada, and Canarctic Shipping Company Limited. The ground rules of a management and accountability relationship with the Government and Parliament for entities in this category have not been widely examined or agreed upon. *Quasi-public Corporations* are a growing collection of diverse corporate bodies that appear to be, and indeed often consider themselves to be, part of the private sector; however, these

corporations do have some connection with government. They include Hockey Canada Incorporated, National Sports and Recreation Centre Incorporated, and The Forest Engineering Research Institute of Canada.

In attempting to categorize and define appropriate accountability relationships for these two groups, we recognize that we are treading on new ground; there is little previous investigation to serve as a guide. We are endeavouring, first, to survey the borderland between the public and private sectors so as to develop a practical approach to defining more precisely which entities are Crown agencies. Then we suggest a foundation for management and accountability by proposing a classification for the group that can be identified as Crown agencies. As we suggested in Chapter 18, the creation of a new category is required. In Appendix A, the fourth category identifies *Shared Enterprises*. In the case of the entities listed as *Quasi-public Corporations*, we raise questions and make recommendations that we hope will stimulate further debate and inquiry.

Shared Enterprises

The question of the accountability of *Shared Enterprises* has not been addressed even though the shared enterprise form is by no means new. When the *Financial Administration Act* (FAA) was passed in 1951, four corporations with characteristics of shared enterprises were operating. The federal government was involved with the government of Nova Scotia in the Halifax Relief Commission, with the Alberta government in the Eastern Rockies Forest Conservation Board, the government of British Columbia in the Fraser Valley Dyking Board, and the Manitoba government in the Greater Winnipeg Dyking Board. These agencies were neither mentioned in the FAA nor included in the Schedules to it. The ties between these types of agencies and the Government and Parliament were then, and continue to be, subject to the idiosyncratic provisions of the individual constituent acts (which now include the acts of the Canada Development Corporation and Telesat Canada) or to variations in federal or provincial corporate law. The situation is unsatisfactory because nowhere are the limits of governmental activity defined, nor is there any means of ensuring

that all bodies in which government is directly participating are, in some appropriate way, accountable to the Government and to Parliament.

Shared Enterprises are joint ventures in which the Government has taken a direct equity position, large or small, in common with other investors. They have a variety of forms, depending on the identity of the other participants and the degree of government ownership. One common form involves Government purchase of equity in a private sector firm. A variation of this form, whereby Government provides part of the start-up capital, is often used where the rates of return on investment might be too low at the outset for private investors to take the initiative alone. A shared enterprise approach has also been employed to introduce private sector involvement into areas in which Government is initially active. Such is the case with Telesat Canada.

Another form of federal government participation in private sector ventures is the holding company. The largest and most complex of these at the federal level, the Canada Development Corporation, is a prominent example of this form. The Canada Development Corporation was established by statute in 1971 to encourage and maintain the development of Canadian-controlled and managed corporations in the private sector and to allow Canadians the opportunity to invest in the economic development of Canada. The Government provided the initial capital and investments; however, more than 30% of the voting stock is now held by almost 20,000 Canadians, and the Government has indicated its intention to reduce federal participation to 10%. Since 1971, the Canada Development Corporation has become a large industrial holding company with assets of $2 billion, reflecting the Corporation's interests in a large number of foreign and domestic operating and holding corporations.

A number of *Shared Enterprises* involve equity participation of other governments. Joint ventures with other levels of government in Canada or with foreign governments have resulted in the formation of corporations to finance, co-ordinate, or operate facilities. The corporate form allows participating governments to be represented on boards of directors in keeping with the level of their involvement, permits funding from various sources, and is a useful vehicle for sharing costs and benefits. According to the Treasury Board Secretariat list, there are ten such enterprises. With the exception of the bridge authorities, most of these *Shared Enter-*

prises are projects in which the government, through the Department of Regional Economic Expansion and along with other levels of government, has taken an equity position in particular companies for the purposes of regional development. Finally, some shared enterprises involve a combination of governments and private investors. POS Pilot Plant Corporation and Consolidated Computer Incorporated are examples of enterprises in which two levels of government and private investors co-operate.

In some cases, the major shareholder might be a Crown agency (Petro-Canada owns part of Syncrude Canada and Panarctic Oils Limited) rather than a minister or the Governor in Council. We believe that such "joint venture" subsidiaries should not be categorized as *Shared Enterprises* but treated as subsidiaries or associates of their parent Crown agency. They should operate under the same accountability régime as, and be directly accountable to, the parent corporations.

In summary, *Shared Enterprises* are instruments of public policy, but in a more limited sense than wholly-owned *Crown Corporations*. The passage of a constituent act by Parliament, or the assumption of trustee shareholder status by a minister as a prelude to Government participation, are expressions of public policy that have the effect of directly delegating continuing public responsibility and power to a corporation. As a general rule, the Government assumes an important presence in any enterprise in which it shares, and establishes an enterprise through legislation only when it intends that the corporation fulfil, to some extent, a public policy function. For these reasons we believe that *Shared Enterprises* can be assumed to be Crown agencies for the purposes of classification.

There are some instances where the Government has taken a nominal shareholder interest as an investor or banker in an enterprise but has no intention of taking an active role or participating on a continuing basis. For example, the Government may take a minority equity position as an incentive to the corporation, or as collateral to secure a loan made to the corporation under a program of the Department of Regional Economic Expansion. In these cases, the intention of the Government is to become associated for a short term rather than on a continuing basis. Such corporations would not be candidates for Crown agency status.

Shared Enterprises can thus be defined as Crown agencies in which the federal government has taken a direct equity position in

common with other participants for the purposes of implementing a public policy or satisfying a public need. Because public funds are extended to these enterprises, these corporations should be identified and brought under an appropriate accountability régime. To this end, we recommend that

> **20.1** ***Shared Enterprises*** **be listed as such for purposes of identification in the revised schedules to the Financial Administration Act, and that the subsidiaries of** ***Shared Enterprises*** **be directly accountable to their parent corporations and identified by and listed with their parent corporations.**

The remaining enterprises, which have only an investment relationship, should be identified in the annual reports of the departments which have made the investments. The names of these organizations should also appear in the Public Accounts.

Despite the fact that the Treasury Board Secretariat lists contain 24 "mixed enterprises" in which Government has a direct controlling interest, no attempt has been made by the Government to classify them or to suggest a general framework within which they should operate. At present there is no comprehensive approach to the management and accountability of shared enterprises. Indeed, few modern industrial states have worked out a formula for mixed enterprises involving other levels of government and the private sector.

While the federal government has not explicitly laid down a régime for this type of enterprise, its general approach to them can be inferred from recent experience. The Government appears to define the Crown's position with respect to these enterprises in terms of the shareholder powers set out under the applicable provincial or federal corporate law. The Government has followed this course when it has purchased equity in an existing corporation or incorporated a new joint enterprise under provincial or federal corporate law in co-operation with private sector participants or other governments. For example, when a corporation has been incorporated under the *Canada Business Corporations Act* the designated minister as a shareholder has the same access as the other shareholders to a number of powers, including the right to confirm, reject, or amend bylaws, the election of directors, control over the compensation of directors, the appointment of the auditor, and access to the annual financial statements. However, the

CBCA does not give special status to the Government as shareholder.

Moreover, when these shared enterprises are established or continued under corporate law, Parliament has no role in their direction, control, and accountability. In addition, Parliament has no legally established access to information concerning the financial management of the enterprise or its performance other than that which is required by the *Canada Business Corporations Act*.

The Government has apparently been satisfied with the role of shareholder in most instances; however, when it has established a joint enterprise through legislation it has tended to accord itself more powers with respect to the enterprise than an ordinary shareholder would be accorded under corporation law. The *Canada Development Corporation Act* and the *Telesat Canada Act* illustrate this situation.

The Canada Development Corporation (CDC) was set up to be run like a private sector holding corporation, by a Canadian board and management, with the Government having the status of an ordinary shareholder. However, under the constituent act the Government acquired special powers deemed necessary to carry out the public policy intentions of the legislation. First, the Government defined a mandate for the corporation that qualified the pursuit of profit with national interest considerations. The Act requires that investment and other business decisions give high priority to filling gaps in the economy and otherwise benefiting the country. The attempt to fulfil both sides of this mandate could raise questions about the extent to which the other shareholders' interests are being suppressed in favour of those of the Government or the extent to which profitability and the desire to attract further private capital are being placed ahead of public interest goals. Second, by using legislation to create the CDC, the Government placed itself in the unique position of being able to initiate changes in the mandate through further legislation. Third, the enabling legislation guaranteed that the Government would always remain the largest stockholder even if its share of the voting stock sank to the minimum 10% level. No other shareholder is allowed to own more than 3%. Fourth, the Government established a minimum for the number of directors it could appoint to the board regardless of the level of its ownership share. On the basis of its repeated pledge of non-interference in the affairs of the CDC, the

Government has not voted its shares in the election of directors, despite its present overwhelming ownership position; however it has exercised its right, established in the legislation, to appoint four directors to the 21-member board. In addition, the Government reserved the power to include two public servants as ex officio board members whenever it has more than 50% of the voting shares. Finally, the Act states that Parliament must give permission before the CDC could be wound up as a corporation. Effectively, then, the Government has the power to initiate an action that is not available to the ordinary shareholder.

These rights and powers seem appropriate in view of the fact that a joint enterprise *is* a Crown agency with a public purpose, rather than a private corporation. Equally important is the manner in which these rights have been established. There is a clear difference between the Government openly taking certain responsibilities and rights to itself at the outset, as with the CDC, so that all other potential participants are aware of these rights before they purchase an equity share, and the Government later attempting to assume special privileges with respect to the enterprise.

The Government's approach to an accountability framework for mixed enterprises has thus been to accept the role of shareholder except when establishing a new enterprise through legislation. The Government appears to recognize the dangers of applying a framework based on tight controls to shared enterprises. The Blue Paper makes the following point in reference to "mixed enterprises":

> In cases such as these the Government feels that it would be inappropriate to apply the financial management and control regime of the FAA lest the private participants fear that such close government scrutiny and control would adversely affect their investment and withdraw from the enterprise.

By contrast, the Auditor General and the Public Accounts Committee seem less apprehensive about increasing the Government's powers with respect to those mixed enterprises that are part of the group the Public Accounts Committee calls "government-controlled corporations". The Public Accounts Committee has, with the support of the Auditor General, looked closely at the financial management of these corporations and made a number of recommendations in two separate reports. The implementation of

these recommendations would significantly alter the Government's status as an ordinary shareholder and would change the status of joint enterprises with respect to the private sector.

One of the committee's recommendations suggests the extension of the Government's power as shareholder to ensure its adequate representation on boards of directors and audit committees. The Government would, accordingly, be given the power to require that corporations form audit committees, that a majority of the members of these committees be outside directors, that they meet at least once a year with the auditors of the corporations, and that the Auditor General have the right to attend or be represented at all audit committee meetings. Many of these proposals relate to responsibilities already vested with boards of directors under the CBCA and most of them would almost invariably be supported by board members. It would be unusual, however, and probably unwise in the case of *Shared Enterprises*, to take powers that are normally those of the board and lodge them with any one shareholder.

The Public Accounts Committee also proposes that the Government make its guidelines on commercial practices applicable to all "government-controlled corporations" and that the Government issue guidelines on the operation of foreign subsidiaries of these corporations to ensure that their practices and records come under parliamentary scrutiny. While the Government should promote the highest standards of ethical and commercial practices, this normally would be accomplished through governmental representation on boards of directors. If satisfaction is not obtained at the board level, shareholders, including the Government, have recourse to law.

While the Government's approach to the management and accountability of mixed or shared enterprises has been developing along appropriate lines, its application is inconsistent. Moreover, an appropriate mechanism for reporting to Parliament is absent. It is evident from the Blue Paper that the Government has a clear interest in remedying the situation.

A considerable body of legislation exists with respect to shareholder rights. Except where special circumstances dictate or agreement is obtained at the time of incorporation or original involvement, the Government should not seek a privileged position over other shareholders. With respect to the basic principles that

should underlie the accountability relationship between the Governement and *Shared Enterprises*, we recommend that

> **20.2 accountability with respect to the delegated public responsibility of *Shared Enterprises* normally be subject to appropriate federal or provincial corporate law, and, in addition, that provision be made for appropriate reporting and disclosure to Parliament; that**
>
> **20.3 the designated minister as trustee shareholder for the Crown accept the rights and responsibilities of any shareholder under the applicable corporate law, except where those rights and responsibilities have been clearly modified by a specific constituent act; and that**
>
> **20.4 the designated minister be the accountability link between a *Shared Enterprise* and Parliament.**

The acceptance of these basic principles would have a number of implications for the relationship of *Shared Enterprises* with Parliament and the Government. Through the provisions of a constituent act or the applicable corporate law several elements of accountability, which apply to all Crown agencies, should be built into this relationship.

Mandate *Shared Enterprises* should normally be established under corporate law on the initiative of either the federal or other governments. The use of a constituent act should be reserved for special circumstances such as the establishment of a major holding company. The mandate of the enterprise should be agreed upon by the shareholders and set out in the articles of incorporation or the constituent act.

Direction The board of directors or the equivalent controlling body should be charged with the management and direction of a *Shared Enterprise* within the boundaries of the corporation's mandate and in accordance with appropriate corporation law. Board members owe their primary duty of care to the corporation and must act in the best interest of all shareholders.

The designated minister, as trustee shareholder, should exercise no special powers with respect to the planning, policy-making, or budgeting processes of a *Shared Enterprise*. If the Government seeks special rights beyond those available to an ordinary shareholder with respect to the appointment of directors, these should be spelled out in the constituent act. Where there are public

servants on the boards of *Shared Enterprises* they should be full directors and must accept the same responsibilities as any other director.

Control *Shared Enterprises* should follow accepted private sector management standards and practices in all areas, including budgeting, accounting, auditing, cash management, financing, "insider" classification and reporting, confidentiality, and conflict of interest requirements. The Government has an obligation to ensure adherence to its standards of commercial and ethical practice by *Shared Enterprises* through its representation on the board.

Evaluation and Reporting *Shared Enterprises* can be evaluated by the Government on the basis of the financial reports made available to all shareholders under the disclosure standards of the appropriate corporation law. The designated minister should not be accorded any special rights to supplementary information relating to the operations of the enterprise. The designated minister should lay the annual report of the enterprise before Parliament and, in addition, report on any other matters such as material changes in objectives, important acquisitions, and reports on major subsidiaries. All shareholders are entitled to information of this kind.

Quasi-public Corporations

In recent years the Government has become involved with several corporate entities that we refer to as *Quasi-public Corporations*. These are generally non-profit corporations, sponsored or promoted by the Government at the outset, and relating to the Government in a confusing variety of formal and informal ways. With most of them, the Government would appear to have no legal relationship flowing from the act of incorporation itself. These corporations include Hockey Canada Inc., the National Sports and Recreation Centre Inc., the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, and The Forest Engineering Research Institute of Canada.

We have taken an interest in these entities because they are on the edge of the public sector and because their existence raises questions of performance and accountability. A number of these

organizations are identified with government by being included in the Treasury Board Secretariat's list under "Other Government Corporations" and "Other Entities and Associates". The Government should, therefore, recognize and deal with the nature of this relationship.

While we did not make an in-depth study of this group of corporations, our efforts to determine their status led us to make some observations. The first significant characteristic of most of these entities is the Government's role in their formation, and the degree of responsibility for their performance that this role implies. The Government has sponsored the creation of this type of corporation by bringing together a group of interested citizens or corporations to form a non-profit corporation, with governmental support and with or without governmental financial participation, under Part II of the *Canada Corporations Act*. The purpose of forming such a corporation would be to achieve a goal that until that time had been largely, if not exclusively, a private sector responsibility. The pursuit of the particular objective takes on a public character by virtue of the Government's sponsorship and its financial support after incorporation. With the exception of the Queen Elizabeth II Canadian Fund, which was established by an act of Parliament, the Government is not legally involved in the corporations we examined. Nevertheless, Government sponsorship and support carry a degree of implicit responsibility.

The Government has the power to name members to the boards of directors of these corporations; in the case of the National Sports and Recreation Centre Inc., the Government names a majority of the board members. This gives the Government an effective voice in the establishment of policy within these corporations. While senior public servants from interested government departments serve as board members, the sponsoring minister is not usually a member of the corporation or of the board; however, ministers have sometimes intervened in the direction of a corporation, and have even attended board meetings as arbitrators on policy questions.

The funding relationship between the Government and these corporations also varies. For some, like the Vanier Institute of the Family, an initial capital endowment is made. Funding can also take the form of annual grants, annual matching grants tied to contributions and loans. All these approaches differ from the traditional method of funding private sector groups through a

contract. The Government may have the authority to audit the books of the corporation as part of the funding relationship, but there does not seem to be a consistent pattern of monitoring or auditing.

The final noteworthy feature of the relationship between the Government and these corporations is the absence of any formal accountability linkage. Board members of these corporations, again excepting the Queen Elizabeth II Canadian Fund, are obligated only by the requirements of the particular law of incorporation. Where there are Government appointees on the board, the Government may receive an accounting from them; but this does not appear to have been interpreted as a responsibility of these appointees or as an accountability linkage. In addition, except for the budgetary items in the Estimates of the sponsoring department, Parliament receives no information beyond what the minister chooses to provide concerning the operation of these *Quasi-public Corporations.*

We say again that when the Government moves to sponsor or encourage the creation of a public activity, it is openly associating itself with the undertaking and must recognize that it is assuming a measure of responsibility for the efficient and effective performance of the organization. We recommend, therefore, that

> **20.5 the annual reports of *Quasi-public Corporations* that receive grants or contributions from the Government be tabled each year at the same time as the tabling of the Estimates; and that**
>
> **20.6 the Government undertake to hold the officers of *Quasi-public Corporations* accountable in a manner commensurate with the degree of governmental sponsorship or encouragement of those corporations.**

We are persuaded that there is a need for the accountability relationships and disclosure standards of these *Quasi-public Corporations* to be examined thoroughly. A starting point for such an examination should be the compilation of a complete list of these entities. The beginnings of such a list are set out in Appendix A.

PART V

ACCOUNTABILITY TO PARLIAMENT: CLOSING THE LOOP

21

RIGHTS AND RESPONSIBILITIES

Introduction

Accountability is the working principle of our parliamentary system and a process whose effective functioning is essential to our democratic government. The reality of that system is expressed through universal suffrage and popular representation in Parliament. Therefore, we have chosen to end our Report with our conclusions about Parliament's role in the accountability process, for it is in that institution, as our mandate foresaw, that accountability culminates. In terms that we have already used, effective accountability demands that evaluation of all aspects of programs begin by Parliament requiring clear identification of tasks and goals and end by a full accounting to Parliament for results achieved.

While Parliament consists of two chambers, the Senate and the House of Commons, our constitution requires that money bills, whether relating to Ways and Means—the raising of revenues, or to Supply—their expenditure, originate in the House of Commons. It is for this reason that our recommendations, which concentrate on the accounting owed to Parliament in exchange for the granting of taxation and spending authority, emphasize the role of the House of Commons in the scrutiny of public expenditure. This does not in any sense detract from the Senate whose role we acknowledge and commend. We note, for example, the role played by the Standing Senate Committee on National Finance in recent years in reviewing departmental programs. We hope that the excellent work of this and other committees will continue to supplement and complement the more vigorous role we envisage for the House of Commons. Our primary focus, however, remains the House of Commons because it is the forum in which the

Government presents its plans and requests resources and where ministers of the Crown are ultimately called to account.

Parliament has three tasks to perform, to legislate, to grant supply and authorize the levying of taxes, and, ultimately, to support or replace the Ministry. Normally it performs these tasks by granting, or refusing, assent, after a process of public scrutiny and debate, to measures proposed by the Government. However, responsibility for governing the country is vested not in Parliament but in ministers of the Crown. Parliament's responsibility, which is of no less importance, is the continuous scrutiny that it is empowered to maintain over the Government's implementation of the measures to which Parliament has given assent. This aspect of Parliament's role is widely misunderstood. The misunderstanding arises from the belief that Parliament has, or ought to have, a much greater voice in framing the measures put to it by the Government. The gap between what much of the public expects of Parliament and what it really can and ought to do could lead to serious questioning of its value and purpose.

In the centuries-long history of relations between Governments and Parliaments, the balance of power has shifted several times. The popular perception of Parliament is in many ways still based on the situation which prevailed in the mid-nineteenth century, when Parliament was relatively much stronger in its dealings with the Government than it is today. The evolution of disciplined political parties has lifted from the Government the burden of having to cajole its putative supporters into voting for its measures. This means that the relationship is so unequal that the principles of responsible government, while still generally accepted, are in danger of becoming irrelevant to the actual situation. At the same time, the Government's ability to build and defend strong policy positions has been greatly enhanced by the growth of the public service. To use traditional language, the Crown is assisted in what is now only a sporadic struggle with Parliament by the research and policy-making expertise of thousands of civil servants.

In periods of majority government the struggle is not between Government and Parliament as a whole, but between the majority of MPs who support the Government, and the minority who oppose it. The frequent result is that debate on the merits of issues is relegated to a position of secondary importance. Moreover, the situation profoundly affects how well the Government must

account to Parliament and its committees in exchange for the granting of supply and continuing support. Minority Governments must be somewhat more responsive to the wishes of Parliament, but even when dealing with such Governments, Parliament has not been noticeably more successful in obtaining an adequate accounting.

The key to Parliament's role as a body to which accountability is owed for the administration of government has always been the need for Parliament's approval of government expenditure and its power to review that expenditure. Parliament's ability to undertake this task, both at the time expenditure is proposed and after it has been made, must be reinforced and improved. However, such bolstering of Parliamentary resolve will require changes in organization and procedure, and, above all, in the attitudes of the participants. It will also require the explicit recognition and formalization of certain reporting relationships that already exist between public servants and Parliament.

While public servants act in the name of the minister to whom they are responsible, ministers remain politically responsible to the House of Commons for the actions of their public servants and legally responsible before the courts of law for the actions they authorize. These principles are the underpinning of responsible government. The doctrine of ministerial responsibility has a great deal to recommend it, for it identifies who has the final responsibility for decisions taken—the minister, and provides a forum in which he is publicly accountable—Parliament. Nevertheless, this valuable tool for achieving accountable government must not become an obstacle to holding to account those who carry out tasks on the basis of delegated authority—the officials of departments and agencies.

Measures must be taken to ensure that ministers are in fact accountable for the administration of government. Not merely must there be accountability of public servants to ministers, but also of ministers to Parliament, which means, effectively, to the House of Commons. We recognize that the House of Commons is in many respects a forum where parties conduct continuous election campaigns for the right to form the next Government. Even the workings of the committees of the House of Commons are also affected by this partisanship. Without attempting to change the necessarily partisan nature of the House, we have concluded that ways must be found to improve the accountability of the Govern-

ment to Parliament and its committees. Our proposals for reform concern this function of Parliament, which, at present, falls short of satisfying not only Members of Parliament themselves but also citizens in general who are restive over the obvious lack of effective control.

The right and duty of the Cabinet to manage the government, and Parliament's complementary right and duty to observe and comment on how well government is managed, are not open to question. This parliamentary scrutiny involves more than discussion and approval of legislation; it should encompass the review of public administration in the full sense of examining priorities, plans, and their implementation. In other words, it should deal not only with the policies of government, but also with the efficiency and effectiveness with which programs are carried out to implement those policies.

The process of scrutiny, surveillance, public exposure, and debate helps to legitimize the actions of government to the public. The current widespread hostility to "big government" can be partially explained in terms of a breakdown in the public's belief in the appropriateness of government spending. This, in turn, can be ascribed to the failure of existing arrangements to permit Parliament, on an informed basis, to undertake an open and comprehensible review of government expenditure and a comparison of results against stated goals. This failure on the part of Parliament to "legitimize" government exacts a price in public trust, which both Parliament and other governmental institutions are called upon to pay, and which ultimately we all pay.

Ministerial Responsibility for Departments

Traditionally the link from the Crown and the bureaucracy to Parliament has been the minister. Despite its transformation since the 19th century, the public service continues, in theory, to be indirectly responsible to Parliament, through ministers. Individual ministers are responsible to the House of Commons for their own actions and for the actions of the public servants over whom they have management and direction.

In addition to this individual responsibility, ministers are collectively responsible for the policies and actions of the Government as a whole. They must support the decisions of the Cabinet in public, but the need to maintain a united front has deeper ramifications. Ministers must reconcile among themselves competing demands for money for government programs and share responsibility for the consequent allocation of resources and for the quality of management in the public service. These collective management responsibilities are set out in those parts of the *Financial Administration Act* (FAA) dealing with the Treasury Board. The individual ministerial management responsibilities with which we are particularly concerned are legally based in large part on the acts constituting individual departments.

The acts constituting departments generally make ministers specifically responsible for the management and direction of departments. Because this individual responsibility served as the effective link between the public service and Parliament, and because a minister was answerable in the House, it was thought that the bureaucracy would be responsive, through him, to public criticism. Because a minister was an elected official, it was believed that his department would be responsive to political direction.

While we have no wish to dispute the principle of ministerial responsibility, there can be little doubt that today the degree to which a minister really has the effective management and direction of his department is open to question. In the context of developments in recent decades, we are dealing with a government vastly transformed from the time when the conventional view of ministerial responsibility was formulated. The twin assumptions that Parliament has the clout as well as the information to exact a relevant accounting, and that the departments can be managed and directed by ministers, do not hold as they once did. We believe that the application of the principle must be reconsidered in the light of changed conditions.

There is no doubt that the minister's function as the link between Parliament and the bureaucracy has become subject to serious overload as a result of the many and complex responsibilities placed on him. It has been repeatedly emphasized to us that a minister's multiple responsibilities make heavy demands on time and expertise. Ministers generally cannot afford to devote a large portion of their time to departmental business. Of necessity, this

time is more likely to be dedicated to the policy issues facing the department than to matters of administration, for it is the policies and their implementation that ministers must be prepared to explain and defend daily. Nevertheless, the growth in the complexity of departmental business and in the number of demands made on ministers by their departmental, Cabinet, constituency, party, and parliamentary duties does not obviate the need for them to be aware of the administrative issues facing their departments. Indeed, it is often just such issues that cause ministers difficulties in the House. Thus, ministers should not be excused from responsibility for the actions of their departmental subordinates. These considerations suggest that additional means are required for ensuring that their officials are, in fact, fulfilling responsibilities that have been assigned to them, and are being held accountable for their performance.

Deputy Head Accountability

Our recommendation that accountability for administrative performance be focussed directly on the deputy heads of departments and agencies is intended to relieve ministers of some of the burden of operational detail without removing final responsibility for policy development and implementation. In Chapter 9 the responsibilities of deputy ministers are described and proposals are made to reinforce the deputy's role as chief administrative officer. In this chapter we propose means through which chief administrative officers can account for their exercise of these responsibilities. We recommend that

> **21.1 the deputy minister as chief administrative officer account for his performance of specific delegated or assigned duties before the parliamentary committee responsible for the scrutiny of government expenditures, the Public Accounts Committee.**

If deputy heads of departments are to be held directly accountable before Parliament through the Public Accounts Committee (PAC), that accountability should relate to specific duties. These would include responsibilities relating to the probity and legality of expenditures, the economy and efficiency with which

programs are run, and their effectiveness in achieving policy goals. It would exclude questions of the appropriateness of policy objectives and the programs selected to achieve them; these are the preserve of ministers, individually and collectively.

Such a list of duties would be to the advantage of the person assuming them in that, by specifying what he must do, it would define his responsibilities. The minister's ultimate responsibility for the management and direction of the department would be served by limiting the deputy head's liability to the means whereby Government policy is to be accomplished. Far from challenging the doctrine of ministerial responsibility, the concept of direct accountability of officials before Parliament through one of its committees would reinforce the minister's and the Cabinet's ability to be responsible for the conduct of the affairs of government. It would do so by reinforcing the internal processes that give individual ministers, and the collectivity, the means of knowing whether deputy heads are carrying out their jobs effectively. Ministers have little difficulty judging whether they are receiving good policy advice and this is one facet of the deputy's job that ought not to be subject to public scrutiny. A minister, however, may lack the detailed knowledge, the specialized skills, or simply the time to assess a deputy's administrative performance. The other demands of political life ordinarily preclude his spending enough time on departmental business to develop that ability. Furthermore, as we propose, apart from those responsibilities which are specially designed to the deputy, the minister would always have the option of assuming specific responsibility for an administrative matter.

When a deputy head is appointed, his duties as chief administrative officer, for which he must account annually, should be spelled out in a written document or letter from the President of the Board of Management. The letter should also specify a method for dealing with differences relating to the respective mandates of the deputy and the minister. Copies of this letter should be sent to the Auditor General and the Clerk of the Public Accounts Committee so that a list of accountable officials and their duties is available to them.

The responsibilities for which deputy heads should be liable to account before the PAC and which should be fully explained in writing to each deputy head on appointment are those assigned under the FAA and other legislation as well as those delegated by

the minister. These are described in Chapter 9 and summarized as follows:

1) the correctness of the appropriation accounts for the votes for which the deputy is responsible;
2) the legality of expenditures made under these votes; that they are in accordance with Parliament's intentions in voting them, and that mechanisms are in place to ensure probity in the expenditure and receipt of monies;
3) economy, efficiency, and effectiveness in the expenditure of money voted to the department;
4) the evaluation of the effectiveness of programs in achieving their stated objectives;
5) other responsibilities assigned under the FAA, including the maintenance of adequate systems of financial management, the safeguarding of public property, the supervision of compliance with contracts, and the control of allotments;
6) personnel management responsibilities delegated under the *Public Service Employment Act* (staffing, including appointment, promotion, transfer, demotion, and release) and its Regulations, and under the FAA (organization and classification); and,
7) responsibilities related to the *Official Languages Act*.

The deputy head's responsibility for fulfilling these duties must be strictly personal. An individual should not be able to avoid being called to account for expenditures made while he held a particular office simply because he has assumed another. However, we recognize the practical difficulty of preparing for an appearance before the PAC to account for expenditures made under the authority of an office no longer held. Nevertheless, former deputies should be prepared to make themselves available as witnesses to provide information to the PAC when requested. Our recommendation to reduce the mobilty of deputy ministers should help to keep such occurrences to a minimum.

The PAC should report regularly to the House of Commons on its examination of the accounts, stating whether or not it is satisfied with the accounting rendered by deputy ministers as chief administrative officers. A beneficial effect of this procedure is that the knowledge that expenditures will be examined should permeate

the departmental hierarchy, contributing to the creation of an atmosphere in which accountability and good management can flourish.

Notwithstanding the deputy's role as chief administrative officer, and always excepting those duties specifically assigned by law or delegated directly to the deputy head, the minister's legal and ultimate responsibility for the management and direction of the department must continue to be observed. Therefore, a procedure is required for the resolution of disagreements between ministers and deputies with respect to administrative questions. If it happens that a deputy head disagrees with his minister on a matter affecting the economical and efficient administration of the department, we propose that he write to his minister stating his disagreement with the decision. Having done this, if the minister adheres to his course and instructs the deputy in writing of his decision, the deputy must accept it. Copies of the correspondence should then be sent to the President of the Board of Management.

In our review of departmental appearances before the Public Accounts Committee over a four-year period (October 1974 to June 1978), we noted that frequently it *is* the deputy minister who appears to provide an account. Of the 14 departments examined in this period, 12 were represented by their deputy ministers. This is not only acceptable but desirable. However, we have also remarked that often deputies relied on their assistant deputy ministers (ADMs) in appearances before the Committee. In fact, sometimes ADMs appeared without the deputy being present. Both of these approaches fall substantially short of a satisfactory accountability process. When we speak of direct accountability of the deputy minister before the PAC, we mean that he is the person who is answerable for the administrative performance of the department. While the deputy may be accompanied by one or more ADMs, only rarely should he rely on them for information, and then only for technical or other details.

Senior members of the Financial Management and Personnel Management Secretariats of the Board of Management should also be present when deputy heads account for their administration. While the deputy has direct responsibility, to some extent this can be shared or overlap with the duties of the two secretariats. Because they recommend policies and establish standards and guidelines for financial and personnel administration, advise on the allocation of resources, and perform other functions having a

direct effect on departments and agencies, their own performance can be a factor in the deputy's administrative performance. Representatives of the Board of Management should, therefore, be prepared to support deputies in their accountability sessions with the PAC, or to defend the Board's judgement if it is called into question.

We also observed that in the period studied, only three ministers appeared before the PAC and that, on one occasion, the appearance was related to Government policy on a specific matter, and, on the other two, to clarifying a specific ministerial action in order to assist one of the PAC's special investigations. We view as necessary and realistic the occasional appearance of ministers before the PAC and would encourage the committee to continue to request ministerial appearances when policy issues are under consideration or in case of a disagreement between a minister and a deputy. We emphasize, however, that such appearances must serve the objective of maintaining a clear and unambiguous focus on the administrative accountability of the deputy heads.

In summary, our proposal to deal with the overloaded ministerial link between Parliament and the bureaucracy offers both enhanced accountability for administrative performance and benefits for each of the parties involved. Parliament acquires a means of exercising its acknowledged right to examine the way in which the funds it grants have been spent. Ministers are provided with the assurance that proper attention will be paid to the management of the departments for which they are ultimately accountable. The deputy minister is recognized as the chief administrative officer to whom responsibility for departmental management is assigned in legislation or delegated by the minister and central agencies. Furthermore, the opportunity for good management to be appropriately lauded appears where today only the possibility of criticism for bad management exists. Assigned duties can be accounted for in a public forum; no means now exist to ensure that these responsibilities are properly acquitted. In fact, many of the deputy heads who met with us expressed an interest in a procedure that would allow them a "day in court". This predisposition toward complete and open accountability appeared to stem from dissatisfaction with the present situation where a deputy's administration may be examined on a piecemeal basis and in a highly critical atmosphere, if at all, and where a deputy has little opportunity to explain his actions or to place them in their correct context.

We also believe that the process would provide for a necessary recognition of the fact that deputy heads must possess an appropriate balance of policy advisory and administrative skills.

We were struck in our meetings with government officials in Great Britain by the importance which permanent secretaries (the British equivalent of deputy ministers) place on their own accountability sessions with the Public Accounts Committee. They place great emphasis on the benefits they derive from being required to review the operations of their departments in order to ready themselves for the session in which they account for their administrative performance. We have reason to believe that a similar view would be taken by Canadian deputy ministers.

Ministerial Responsibility for Crown Agencies

In addition to his responsibility for the care and management of a department, a minister may have within his portfolio one or more Crown agencies reporting to him or through him to Parliament. The traditional view of ministerial responsibility for Crown agencies is that ministers have a clear duty to answer on behalf of Crown agencies before Parliament; but this is only part of the story. Although the degree of responsibility is less clear, because Crown agencies do not fit the model of ministerial departments, we have concluded that the responsibility of ministers goes far beyond simply answering questions or transmitting information. This conclusion is based on two observations which apply to all Crown agencies. First, Crown agencies are instruments of public policy for which ministers, both individually and collectively, are responsible. Crown agencies must look to ministers for policy direction and Parliament must look to ministers for an account of the manner in which this policy direction has been given and its implementation monitored. Moreover we have recommended that ministers receive copies of Corporate Strategic Plans, which will add to their knowledge of the corporation's plans for pursuing its public policy goals. Ministers also have a fiscal responsibility with respect to Crown agencies. In some cases, this responsibility takes the form of submitting Estimates to Parliament on behalf of the

agency and approving capital and operating budgets; in others, though the agency receives no appropriations, the designated minister must approve the capital budget and receive the operating budget of the agency for information. A third responsibility is added where the minister is the sole shareholder or acts as trustee shareholder for a corporation and therefore can exert control by virtue of these rights.

The difference between their responsibility for departments and for Crown agencies is that ministers do not have responsibilities for the "care and management" of Crown agencies as they do for departments. This responsibility is reserved for the board of directors or the chief executive officer. In this distinction lies the root of the accountability problem. What is required is a means of ensuring that the broad policy and fiscal responsibilities of ministers are satisfactorily acquitted; but the means must take into account the administrative autonomy necessary to the agency.

It is essential that Parliament be able to obtain information and review performance of Crown agencies since these bodies use public funds and were established to implement public policies. We see no reason to change the existing arrangement which places the designated minister as the link between Parliament and the Crown agency. In the explanation of public policy pursued on the direction of the Government, the minister alone is responsible and must answer to Parliament; in the defence of Estimates, however, the minister may be supported by the board chairman and the chief executive officer of an agency. Even where a Crown agency requires no appropriations, the minister's responsibility to Parliament is still made effective by the requirement that he be aware of, and in some cases that he approve, Crown agency budgets. Parliament's need for information will also be satisfied by the improvements we recommend in annual reports, budget and audit information, and the regular reviews by ministers of the mandate and public policy performance of the agencies for which they are responsible. We see these reviews taking place in the appropriate standing committees. With the permanent referral of annual reports of Crown agencies to these committees, even where no appropriation is being sought, the committee would be able on the basis of the annual report to question both ministers and the agencies on their performance.

Accountability for the day-to-day administration of Crown agencies is a different matter. Where this responsibility is en-

trusted to a board of directors, we have recommended that the chairman account before the Public Accounts Committee on behalf of the board for its direction and management, and that the president or chief executive officer account for the operating performance of the corporation. Where care and management is assigned directly to a chief executive officer, this officer should account in the same manner as a deputy minister accounts before the PAC for his administrative responsibilities. This committee will have available to it the financial statements, as set out in Volume III of the Public Accounts, and the observations of the Auditor General. In addition, information provided in annual reports will be available to committee members.

The Accountability of the Collectivity: The Fiscal Plan

In the foregoing we have described Parliament's role in exacting accountability from deputy heads of departments and senior officers of Crown agencies for the performance of their administrative duties in order to place responsibility for management where it is actually vested. We turn now to Parliament's role with respect to exacting accountability from ministers, individually and collectively, for their role in the development and execution or implementation of plans, policies and programs. Without a framework of objectives and an appropriate planning process, the administration of a department will not receive the direction it requires to proceed in an efficient and effective manner; that is, in a way which makes the best and most economical use of the resources available. The achievement of good administration cannot be separated from the existence of sound planning and direction.

In Chapter 5 of this Report we recommended the annual presentation to Parliament by the Government of a Fiscal Plan. The requirements of content and timing were discussed there; this section focusses on how the House of Commons should deal with the Plan. We view this presentation of the Fiscal Plan as an essential contribution to the establishment of a sound framework for achieving administrative accountability.

The Plan would give Members greater ability to understand and to affect the total of authorized expenditures, both statutory payments and annually voted appropriations, and would inject discipline and direction into the resource planning and allocation process in several ways. First, the Plan would require Government to take a more rigorous approach to the resource allocation process in order to provide Parliament with consistent and comprehensible information; plans would have to be feasible within the time and resources available. Second, public scrutiny and debate of the Government's proposed plan of expenditures would require the Government to commit itself to a plan that could be realized. Third, deviations from the Plan, even though likely to occur, would have to be fully and publicly justified and accounted for. Moreover, our recommendations regarding standards of disclosure and improved formats for Estimates and Public Accounts would provide Parliament with the information needed to exact an accounting.

There are additional and equally compelling benefits to be gained from such an approach. Expenditure proposals covering several years in the future are more susceptible to influence and change than are the Estimates. By looking at total expenditures set out by functions rather than at separate and discrete programs as is now the case, the financial implications of future commitments are brought to light and the pressure to increase expenditures incrementally is reduced. In addition, by relating the spending of money to the raising of it through taxation and borrowing, the course and implications of Government policy can be made apparent. This, too, enhances the possibility for conscious political direction of the course of events. Finally, simply making the size and cost of government and its impact on the economy as a whole the subject of organized and informed public debate can have a salutary effect.

Our proposal is that the Fiscal Plan be tabled in the House of Commons in late October of each year, and be automatically and permanently referred to a new committee, the *Standing Committee on Government Finance and the Economy*. A deadline for the committee's consideration and report to the House would be necessary since its deliberations would have to be completed sufficiently in advance of the tabling of the Estimates to enable its report to provide a framework within which to consider the

Estimates for the coming year. A suitable date for ending debate might be December 15.

The Standing Committee on Government Finance and the Economy should deal with the Fiscal Plan by studying published documents, such as the reports of the Bank of Canada, the Economic Council of Canada, and independent research organizations, and by calling expert witnesses from inside and outside government. The purpose of the exercise would be for the committee to reach some informed conclusions about the implications of the Plan and to report on them.

The Committee's report to the House of Commons would provide the basis for a two-day debate on the Plan. The purpose of the debate would be to subject the Plan to public scrutiny and discussion and thus subject public spending to the most conscious political control possible. No vote would be necessary. However, the Government should respond formally to the Committee's report. Since the Fiscal Plan and the Committee's report on it are to be brought before the House before the tabling of Estimates for the following fiscal year, the Government would have the opportunity to make adjustments, and would not have to defend the proposals in the Plan as if they represented a matter of confidence. This would also work to the advantage of MPs, who could see the broader implications of spending proposals before being confronted with the complex detail of the Estimates.

In summary, we recommend that

21.2 there be established a committee of the House of Commons to be known as the *Standing Committee on Government Finance and the Economy,* that the annual Fiscal Plan presented to Parliament be automatically and permanently referred to this committee, that the committee report to the House on its study of the Plan, and, that the Government respond formally to the committee's report during a subsequent debate.

The Accountability of Individual Ministers: Departmental Estimates

The Government obtains annually the necessary funds and authority it requires to carry out its programs through the passing

by Parliament of Appropriation Acts. These are based on Main and Supplementary Estimates submitted by the Government. The Blue Book of Estimates is thus the basis upon which Parliament is asked to fund the activities of government. As well, the Estimates reflect the Government's plans for the coming fiscal year by underlining its intention to pursue certain goals through establishing, continuing, expanding, modifying, or eliminating programs. Finally, the Estimates are the culmination of a long series of negotiations, discussions, and compromises regarding resource allocation. This process involves ministers, central agency officials, and departmental officials from deputy ministers down to responsibility centre managers. To challenge the amounts thus determined or the manner in which total amounts have been apportioned would be to place in jeopardy the balance achieved internally and would bring into question the confidence of the House of Commons in the Cabinet, since the Cabinet collectively is responsible for the apportionment of resources to programs. It is not surprising, therefore, that changes to the Estimates seldom occur as the result of challenges by the House or by one of its committees. The obtaining of Supply is a matter of confidence that the Government cannot permit itself to lose. Furthermore, the particular resource allocation decisions contained in the Estimates represent a degree of compromise that the Government is loath to have upset by Parliament.

Despite the difficulty of making changes in the Estimates, they do establish the intended direction of the Government and signal its commitment to a total program for an entire year. The Estimates are, therefore, the foundation upon which each minister's accountability to Parliament must be based and it is evident that the manner in which their preparation and approval takes place should reflect their primary importance in accountability. That the Estimates must be approved by a given date and left substantially unchanged is not a compelling argument for their dismissal as a largely meaningless formality. However, three significant changes are required if Estimates approval is to become a more meaningful basis for the on-going accountability of ministers to Parliament. Without these improvements, Parliament's only opportunity to examine the Government's detailed plans with a view to later exacting an accounting for their achievement will be lost.

The improvements necessary in the scrutiny of public expenditures are

1) the upgrading of the quality and relevance of information on financial and administrative performance available to MPs in the Estimates and Public Accounts and the inclusion in that information of performance indicators which would facilitate comparability;
2) the re-orientation of the attitudes of MPs, ministers, and officials involved in Estimates preparation and review and the subsequent steps in the examination of public expenditure;
3) changing procedures and adopting new ways of making the review and approval process more meaningful and productive.

The first two improvements are discussed here; the third is treated in the next chapter.

There emerged from the testimony before the Commission and the research undertaken by its staff a strong consensus about the inadequacy of the Estimates in their present format as a source of information for MPs examining departmental requests for resources. If they are to assume a more effective role in the review of Estimates and the way in which this money has been spent, then clearly their first requirement will be better information.

While the primary purpose of the Estimates is to present information to Parliament for its intelligent consideration and approval, the success of the Blue Book in doing even this is questionable. More revealing of its shortcomings perhaps is the fact that, once the Estimates have been tabled, they are rarely used by the departments as a basis for management. The most serious general criticism is that, while the descriptions of individual votes must of necessity be fairly broad if the number of votes to be submitted to Parliament is not to be excessively large, the descriptions of the objectives, the programs to achieve these objectives, and activities conducted under these programs are so general, and the expenditures relating thereto vary in importance to such a degree that effective parliamentary control is, at best, difficult to exercise. It is impossible to relate all ultimate expenditures unequivocally to appropriations voted by Parliament. Further, anticipated quantifiable results from the implementation of a

given program are not disclosed, and actual performance indicators are not displayed in the Public Accounts.

Specific recommendations for changing the format and contents of the Estimates and Public Accounts documents were detailed in Chapter 6. Two recommendations are of particular interest to parliamentarians. The first is the requirement that information provided to Parliament clearly show the relationship among objectives, programs, and results by establishing performance indicators where appropriate and by describing programs in terms that lend themselves to later assessment. The second is that, by allowing departments some leeway in preparing their Estimates, parliamentarians will be presented with documents appropriate to the particular departments in which they are interested. Issues can be highlighted in a manner not now possible with standardized formats, and departmental program organization will be more apparent.

Improved information has several benefits for Members of Parliament. It can provide a comprehensive basis for questioning in committee meetings, improving the productivity of those sessions, and alleviating the sense of frustration experienced by MPs when faced with ministers and officials who have had full and complete briefings. This information is essential to the improved performance of Parliament's role in holding the Government accountable for its financial plans and the subsequent expenditure of monies granted. More meaningful reviews in committee meetings should allow members to judge with confidence that they have in fact acted responsibly on behalf of the public in requiring that the Government justify its requests for resources and account for their use. Moreover, if committees use this information in the manner we suggest, the media should be more interested in the activities of committees, and do a better job of informing the public of the issues under debate.

Important as are the changes discussed here and in the next chapter, they will by themselves accomplish little if they are not accompanied by a change in the attitudes of those involved toward their respective roles with regard to public expenditure. Attitudes toward Estimates review are a prime example. The Commission has met with parliamentarians and former parliamentarians, ministers and private members, and senior public servants and Crown agency heads. From all sides the view is the same: the review of Estimates is often meaningless. Estimates committees are primari-

ly political forums; MPs have almost no interest in reducing or even carefully examining proposed expenditures, but use the Estimates process to advance party interests or to voice constituency or personal concerns. Ministers do not have to justify their requests for resources because the Estimates will be passed automatically by May 31 in any event.

Our selective review of the proceedings of committees examining the Estimates of several departments bore out the testimony of those officials and parliamentarians appearing before the Commission.* Committee members used the appearances of ministers to question them on policy—either broadly defined or in relation to specific cases—or on departmental actions, procedures, and decisions, far more often than they used the opportunity to examine the substance of the Estimates themselves. The opinion that Estimates review is political (in both senses of the word, that is, partisan and policy-related) was thus corroborated by our review. Also of interest is the fact that, on a few occasions, approval of the Estimates was voted at the beginning of the committee session while a quorum was present, and then the questioning of the minister continued whether or not a quorum remained. This, too, confirms the impression that the most important purpose of Estimates approval meetings is, in the view of MPs, the opportunity provided them to question the minister in a setting other than the House of Commons. In addition, the large number of substitutions (one member replacing another for a committee meeting) suggests a lack of seriousness on the part of committee members in developing any expertise in the subject-matter dealt with by committees of which they are members. Our figures indicated that, on average, only a small group (6 or 7 members, including the chairman) usually attended more than half of a given committee's meetings, whether related to Estimates review or other matters.

The presentation of grievances by MPs before they grant Supply to the Crown goes back to the beginnings of parliamentary government. This principle is not in question; we expect that the review of Estimates will continue to be used for this purpose. What we find difficult to accept is that parliamentarians cannot also take on a more effective role in challenging the Estimates. To bring this about, however, attitudes toward Estimates review must change.

* We reviewed the minutes of committee meetings dealing with the Estimates of three departments: Communications (for 1972 and 1974); Transport (for 1972, 1974, and 1976); and Energy, Mines and Resources (for 1973, 1975, and 1977).

The time of members is too precious, the opportunities to challenge spending plans too limited, and the importance of doing so too vital to conclude otherwise. If accountability is to have meaning and effect, the basis upon which it is rendered must receive full attention from parliamentarians. While we accept the legitimacy of the requirement for grievances to be answered, we cannot agree that Parliament and the public are well served by a continued lack of attention to the content of the Estimates and the commitments expressed in them. The same is true of the other aspects of Parliament's role in accountability for financial plans and government expenditures. Parliamentarians must treat their surveillance role with the same seriousness they accord their political responsibilities. The manner in which they might do so is the subject of the next chapter.

22

INSTRUMENTS AND PROCEDURES

The key to the House of Commons assuming a more effective and influential role in financial management and accountability lies in its committee system. Much of the detailed work of the House is carried on outside the confines of the chamber in committees of MPs acting on behalf of their colleagues. If the House itself is the forum for general and wide-ranging debate, the committee rooms are where detailed discussion and examination of policies and programs proceed. In this chapter we suggest how the committees could assist the House of Commons in its various roles by discharging tasks that the House itself would be incapable of handling due to constraints of time, procedure, and facilities.

If Members of Parliament wish to adopt proposals for strengthening their role in accountability, they must also consider the changes in organization and procedure necessary to accommodate them. Some changes will be necessary to facilitate the performance of new or revised functions. Others should have a beneficial effect on the manner in which present functions are performed. This chapter considers some of the problems with the present committee system, proposes changes to overcome them, and then describes the activities to be undertaken by committees in fulfilment of the role of the House of Commons with respect to accountability for the administration of departments and agencies.

The Committee System

Testimony before the Commission indicated that many of the deficiencies in the work of the committee system stem from the

large number of committee places to be filled, the burden this places on the political parties, and the poor record of committee attendance that results. At present, there are 15 committees of 20 members each, two of 30 members, and two of 12 members. In addition, there are three standing joint committees of the Senate and House of Commons with a total of 56 places to be filled. Furthermore, special committees of no more than 15 members may be appointed from time to time. Although members are named to each committee at the beginning of a parliamentary session, committee membership is closely controlled thereafter by the party whips, who substitute members at will. Substitutions are used to ensure a quorum and sufficient party representation for a vote, to insert a particularly knowledgeable or skilled member when a contentious issue arises in a committee's deliberations, or to permit a member with a constituency interest to represent it.

We attach great significance to the work of committees and we expect that some of the attendance problems should be overcome by the more important role we are proposing for committees. Nevertheless, changes in committee organization and procedure are also required to ensure that committees are equipped to assume this role.

Opportunities exist within the committee system for consolidation so that the number of committees, and consequently the number of places to be filled, can be reduced. The number of substitutions in membership that the present system allows could be greatly reduced, provided the attitudes of the members and of the political parties towards substitutions are modified. Committee membership should be a privilege, and members should retain their places and earn promotion within their parties by virtue of effective participation in committee activities.

A review of Standing Order 65, in which provision is made for the establishment and operation of the committees of the House of Commons, shows that the number of subject-area committees could be reduced by grouping several existing committees together. This initial impression was confirmed by our analysis of committee activity during the period 1974-77. While we are mindful of sensitivity to the suggestion that one or more committees be eliminated or merged, the proposal is based on careful observation of the number of committee meetings and attendance at them over two parliamentary sessions. It may well be that members of the

House of Commons can no longer afford the luxury of a committee devoted to a single subject or department. A committee system tailored to the high volume of work and the limited time available is clearly essential.

Table 22.1 suggests a consolidated list of committees as well as examples of the departments and agencies that would appear before each. We are recommending that the Standing Committees before which departments and Crown agencies appear to defend their Estimates and to present their annual reports be reduced to ten, and that the Public Accounts Committee continue to receive the Public Accounts and the Auditor General's annual reports. These committees would be the means through which Members of Parliament would maintain scrutiny over the Government's spending plans, the manner in which programs have been arranged, and the results of the implementation of plans and programs. We are proposing that two of these committees deal with government-wide issues. The Standing Committee on Government Finance and the Economy should consider such matters as the Fiscal Plan and the Consolidated Estimates; the Public Accounts Committee should study, among other matters, the observations of the Auditor General on general policies, guidelines, and standards of management.

In coming to this conclusion we examined the alternative of creating a general expenditure committee such as now exists in Great Britain to which all Estimates could be sent and which, through a series of sub-committees, would examine individual departments and agencies. We discovered, however, that the significant work of the British committee is done in the sub-committees, and British parliamentarians themselves have recently questioned the value of a general expenditure committee. A recent report of the Select Committee of the British House of Commons on Procedures (July 17, 1978) recommended that the Expenditure Committee be replaced by a number of independent "select" committees, each charged with the examination of all aspects of expenditure, administration, and policy within the responsibilities of a single department or two or more related departments, as well as related nationalized industries and other quasi-autonomous governmental organizations. Such a system would be similar to the current system of standing committees in Canada, except that the proposed British committees would not consider legislation. We doubt that a single expenditure committee with a series of sub-

committees could provide the comprehensive coverage of departments and Crown agencies that subject-area committees would provide. The consolidation of all matters pertaining to a department, including legislative proposals, annual reports, and Estimates, should encourage the development of expertise among members. The need to consider the Government's overall spending plans and priorities, which would be one of the main tasks of a general expenditure committee and which constitutes one of the strongest arguments for having such a committee, would be met by having the Fiscal Plan presented to a Standing Committee on Government Finance and the Economy. Finally, the proposed committee structure would build upon the existing system of committees, and would not require a major change in the organization of the House.

A second method of reducing the number of committee places to be filled would be to reduce membership from 20 to 15. The present guideline of 20 members per committee would appear to offer both benefits and drawbacks. It may offer some flexibility, for example, in the use of sub-committees, but it also appears to have been established on the assumption that not all members would attend every committee meeting. Our study of committee activity and attendance bears out this assumption. Average attendance at committee meetings in the period under review was about 60%, or 12 members of a 20-member committee. In fact, average attendance declined from 64% to 54% between the first and second sessions of the 30th Parliament.

The Standing Orders do authorize standing committees to receive testimony and evidence without a quorum. A majority of the members of a committee is required only if a vote is to be taken or a resolution passed. In the first session of the 30th Parliament 23%, and in the second session 46%, of committee meetings were conducted without a quorum, and these figures do not take into account situations where a meeting began with a quorum but lost members to other pursuits during its course.

Table 22-1
Recommended Re-organization of House of Commons Standing Committees and Examples of Departments and Agencies to Appear at Each

Proposed Committees (number of members)	Examples of Departments and Agencies to Appear	Existing Committees at which Departments and Agencies Currently Appear
Government Finance and the Economy (15)	Finance	Finance, Trade and Economic Affairs
	Insurance	"
	Economic Council	"
	Tariff Board	"
	(Board of Management and Privy Council Office also to appear when Fiscal Plan is studied). Bank of Canada	
External Affairs and National Defence (15)	External Affairs	External Affairs and National Defence
	Canadian International Development Agency	"
	International Development Research Centre	"
	International Joint Commission	"
	National Defence	"
Agriculture, Fisheries and Forestry (15)	Agriculture	Agriculture
	Canadian Dairy Commission	"
	Canadian Livestock Feed Board	"
	Farm Credit Corporation	"
	National Farm Products Marketing Council	
	Fisheries and Environment	Fisheries and Forestry
	Fisheries Prices Support Board	"

Proposed Committees (number of members)	Examples of Departments and Agencies to Appear	Existing Committees at which Departments and Agencies Currently Appear
Agriculture, Fisheries and Forestry (continued)	Freshwater Fish Marketing Corporation	"
	Canadian Wheat Board	
National Resources	Energy, Mines and Resources	National Resources and Public Works
(15)	Atomic Energy Control Board	"
	National Energy Board	"
	Petro-Canada	"
	Atomic Energy of Canada Limited	"
	Eldorado Nuclear Ltd.	
Trade and Economic Affairs (15)	Industry, Trade and Commerce	Finance, Trade and Economic Affairs
	Export Development Corporation	"
	Federal Business Development Bank	"
	Foreign Investment Review Agency	"
	Statistics Canada	"
	Canadair	"
	de Havilland Aircraft	"
	Regional Economic Expansion	Regional Development
	Cape Breton Development Corporation	"
	Consumer and Corporate Affairs	Health, Welfare and Social Affairs
	Central Mortgage and Housing Corporation	"
	National Capital Commission	"
	Canada Development Corporation	"

Proposed Committees	Examples of Departments and Agencies to Appear	Existing Committees at which Departments and Agencies Currently Appear
Transportation and Communications (15)	Transport	Transport and Communications
	Air Canada	"
	Canadian National Railways	"
	VIA Rail Canada	
	Canadian Transport Commission	"
	Pilotage authorities	"
	Northern Transportation Company Limited	"
	Harbour commissions	"
	St. Lawrence Seaway Authority	"
	Communications	"
	Canadian Radio-television and Telecommunications Commission	Broadcasting, Films, and Assistance to the Arts
	Teleglobe Canada	
	Telesat Canada	
Social Affairs and Human Resources (15)	National Health and Welfare	Health, Welfare and Social Affairs
	Medical Research Council	"
	Indian Affairs and Northern Development	Indian Affairs and Northern Development
	Northern Canada Power Commission	
	Veterans' Affairs	Veterans' Affairs
	Labour	Labour, Manpower and Immigration
	Canada Labour Relations Board	"
	Employment and Immigration	"
	Immigration Appeal Board	"

Proposed Committees (number of members)	Examples of Departments and Agencies to Appear	Existing Committees at which Departments and Agencies Currently Appear
Scientific and Cultural Affairs (15)	Secretary of State	Broadcasting, Films and Assistance to the Arts
	Canada Council	"
	Canadian Broadcasting Corporation	"
	Canadian Film Development Corporation	"
	National Arts Centre	"
	National Library	"
	Public Archives	"
	National Museums	"
	National Film Board	"
	Social Sciences and Humanities Research Council	"
	Science and Technology	Miscellaneous Estimates
	National Research Council	"
	Science Council of Canada	"
	Natural Sciences and Engineering Research Council	"
Justice and Legal Affairs (15)	Justice	Justice and Legal Affairs
	Law Reform Commission	"
	Solicitor General	"
	Royal Canadian Mounted Police	"
	Canadian Penitentiaries Service	"
	National Parole Board	"

Proposed Committees (number of members)	Examples of Departments and Agencies to Appear	Existing Committees at which Departments and Agencies Currently Appear
Government Operations (15)	Privy Council Office	Miscellaneous Estimates
	Commissioner of Official Languages	"
	Public Service Staff Relations Board	"
	Supply and Services	Miscellaneous Estimates
	Public Works	National Resources and Public Works
	Board of Management	(Treasury Board Secretariat now appears at Miscellaneous Estimates)
	Public Service Commission	Miscellaneous Estimates
	National Revenue	Finance, Trade and Economic Affairs
	Income Tax Review Board	"
	Auditor General	Finance, Trade and Economic Affairs
Public Accounts Committee (20)	All departments and agencies as required	

COMMITTEES TO REMAIN UNCHANGED

—Miscellaneous Private Bills and Standing Orders
—Privileges and Elections
—Procedure and Organization
—Management and Members Services
—Joint Committee on Regulations and Other Statutory Instruments
—other Joint and Special Committees as necessary

Committee Attendance: The Problem of Substitutions Our proposals to reduce the number of committees and their membership have been based on a thorough inquiry into the attendance habits of MPs. The committee workload could be more fairly distributed among a greater number of MPs than now shoulder that burden. The study of committee attendance showed that a relatively small number of members appear to support the present committee

system through their consistent attendance at more than their share of committee meetings. The study showed, for example, that in the second session of the 30th Parliament, *half of the attendance at all committee meetings was accounted for by just 42 MPs*, who attended an average of 80 meetings each, and this number includes at least 15 committee chairmen. During that session 568 committee meetings were held, an average of 28 meetings per committee. A total of 216 MPs attended meetings, but of these, 59 MPs attended ten meetings or fewer and 100 attended fewer than 20 meetings. Mean attendance per MP was 23 meetings during the whole session; but for full attendance at all committees to have occurred over the session, each MP would have had to attend an average of 112 meetings. The figures argue strongly in favour of measures to reduce the burden of the present system and promote better attendance.

We expect that reduced membership and a restructuring of the committee system will have a beneficial effect on the work of committees. However, apart from any other changes that might be made, the most important reform required is in the habits of the members and of the political parties themselves. The Canadian committee system is much less effective than it could be because of the high rate of substitutions and turnover permitted. Much of the problem with the Canadian committee system is that membership turnover is so high that few committees ever develop the continuity, expertise, and mutual trust that make a committee effective. A change of attitudes and habits is required and we suggest a new parliamentary convention that committee membership be stable. Membership stability will be possible if it is agreed that no vote be taken at a committee meeting without prior notice and that committee substitutes be drawn from an established list of alternate members. It could be reinforced by privileges for regular attendance such as the right to lead off questioning, thereby helping to determine the course of the discussion.

Once membership has been stabilized, committees should be able to organize themselves internally to examine more effectively the Estimates and other matters coming before them, and to allow for consistent and in-depth discussion of the matters at hand. The manner in which questioning should proceed is a matter for each committee to decide independently; however, at the present time, the procedure for questioning is generally the same from committee to committee. Each committee member has ten minutes in

which to ask his question and receive an answer from the minister or officials testifying. Then the next member, usually from another political party, has his ten minutes. With committee meetings lasting an average of less than two hours, it is not surprising that relatively little ground is covered. Furthermore, committee members have seldom organized themselves to pursue a consistent line of questioning so that each question may bear little or no relation to the question that has preceded it. Members are not usually given the opportunity to seek further information and clarification on the points they have raised. Faced with experienced ministers and officials, MPs really lack the time, experience, and background knowledge with which to probe programs and activities in a meaningful way. This is detrimental to the review committee members are called upon to conduct on Parliament's behalf, and to the attitudes of ministers and officials toward the process. For the most part, testimony before the Commission has indicated that ministers and officials consider the review of Estimates, for example, a waste of time. We strongly urge that committees look at alternatives to the procedure for questioning so that useful information can be gleaned in the limited time available.

In summary, we recommend that

> **22.1 the total number of standing committees of the House of Commons be reduced and that, with the exception of the Public Accounts Committee, membership on them be limited to 15 or fewer; and that**
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> **22.2 Standing Order 65.(4) be amended to provide for prior notice of votes in committees and the establishment of alternates lists from which to draw substitutes for committee members.**

The Role of Committee Chairmen A chairman and a vice-chairman are formally elected by each committee at the start of every parliamentary session; however, the Government of the day has usually made the selection in advance. Chairmen and vice-chairmen are almost always members of the party forming the Government, with the exception of the Public Accounts Committee, which is, by convention, chaired by a member of the official Opposition. Representation among committee members roughly reflects party divisions in the House.

We believe that improvements in the operation of the parliamentary committee system are dependent upon the enhancement

of the status of the chairmen of standing committees. As with committee membership in general, we recommend steps to ensure continuity, ideally for the life of a Parliament, in the chairmanship of committees. While the Government would still have ultimate control of the choice of a chairman through the party discipline which it could exercise over the majority of committee members, more secure tenure would permit the chairman to gain the independence necessary to carry on investigations and reviews on the basis of his own judgement without being subject to the threat of replacement at the next session. The skill and expertise which would be developed over time could help to redress the balance between Parliament and the Government.

Recognizing that a chairman must devote more time to this role than an ordinary committee member and that he bears particular responsibility for the quality of the work emerging from his committee, consideration should also be given to remunerating him accordingly. The present practice of compensating parliamentary secretaries for the performance of their duties serves as a precedent. Indeed, the Commission has been told by those who have occupied both positions that the job of a committee chairman is the more onerous of the two. In addition, some introduction to the role and responsibilities of a committee chairman might prove helpful, particularly to new incumbents. The Speaker of the House could be asked to provide such a briefing. The suggestion could be carried a step further by developing courses or seminars for committee chairmen and interested MPs. We recommend that

> **22.3 the chairmen of standing committees be elected by each committee for the life of a parliament, and receive remuneration for performing their duties, such remuneration to relate to that received by parliament secretaries.**

Staff and Budgets for Committees Often the work of the House and Senate committees is supported by staff. For instance, the Senate Committee on National Finance and the House committees on Public Accounts, External Affairs and National Defence, and Justice and Legal Affairs (penitentiaries sub-committee) have employed staff for research and assistance in preparing for meetings, hearings, and reports. Staff can usefully relieve committee members of some of the burden of preparation, particularly when large quantities of background material are involved, and supplement the knowledge and expertise of committee members. In fact,

it is our opinion that the careful use of staff will in future be an essential element of successful committee work, especially in view of the volume and complexity of information to be absorbed. Staff are not a panacea, however, for they cannot be useful unless committee chairmen provide strong direction to them and committee members develop continuity and expertise in their respective subjects by regular participation.

Arrangements for hiring staff should be left to the discretion of each standing committee within budgetary limits established by Parliament. Should the decision be taken to hire staff, committees should be free to do so from any source and to hire on a contract, part-time, or other basis. Such staff should serve all committee members under the supervision of the committee chairman. As with all our recommendations, the decision to hire staff and, indeed, to make expenditures for any other committee purpose, should meet the test of providing value for money. To highlight this requirement, each standing committee should be assigned an individual budget against which all expenditures relating to the cost of carrying on committee activities should be charged. This should include the costs associated with staff and travel, as well as those expenses normally covered in Parliament's general budget, including the costs of printing, translation, messenger services, and the salaries of committee clerks. We recommend that

> **22.4 each standing committee of the House of Commons be allotted a budget to which all expenses associated with the operation of the committee are charged, that the budget include an allocation for hiring staff but that the selection of staff be at the discretion of the committee, and, that staff be at the service of the whole committee but under the direction of the chairman.**

Procedures and Powers In addition to proposing a consolidation of the House of Commons committee system and an enhanced role for committee chairmen, we wish to draw attention to several aspects of committee powers and House rules and procedures that inhibit the effective performance of committees with respect to administrative accountability.

The powers of parliamentary committees are at once broad and severely limited. While committees may send for "persons, papers, and records" in the course of their examinations and enquiries into "all such matters as may be referred to them by the

House,"[†] they cannot undertake these investigations independently. Matters must be referred to them by the House of Commons before work can begin. The exceptions to this rule are the PAC, which since 1977 has had automatic and permanent referral of the Public Accounts and the Auditor General's reports, and both the Standing Committee on Management and Members' Services and the Standing Committee on Regulations and Other Statutory Instruments, which have automatic references by virtue of the Standing Orders and the *Statutory Instruments Act* respectively. Permanent terms of reference for all standing committees is a concept that deserves further examination. Whether this suggestion is adopted or not, we would recommend that

> **22.5 the annual reports of departments and agencies be automatically and permanently referred to the appropriate standing committees of the House of Commons.**

The reasons for this recommendation are straightforward. Committees cannot meet unless they have a reference from the House of Commons. Referral of annual reports should, therefore, be **automatic** so that a Government majority cannot prevent committees from meeting by refusing to refer anything to them. Furthermore, once a committee has reported to the House on any referred matter, it loses its mandate to examine that matter even though, in the case of Estimates in particular, the report to the House is given under pressure of a deadline. **Permanent** referral of departmental and agency annual reports would permit committees to return to the study of issues left unresolved due to a shortage of time during examination of Estimates. It would also allow committees to meet at any time during the year, whether or not Parliament was in session, to undertake other proposed activities.

Apart from the need for a reference from the House of Commons before work can proceed, committees are in a delicate position with respect to investigative procedures because, although they have subpoena powers, the power to compel attendance is, appropriately, the prerogative of the whole House of Commons. Members of Parliament themselves cannot be subpoenaed. Normally, a minister would testify at parliamentary committees, not because of any legal compulsion, but because it is important for

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† Canada. House of Commons. *Standing Orders of the House of Commons*. June 1978, Ch. XI, 65(8).

him to ensure good relations and co-operation between the department he directs and the committee if he wishes a smooth passage for his Estimates or any future business that may come before the committee. Still, there is nothing to prevent a minister from refusing to appear, even if it means running the risk of adverse consequences, or preventing his officials from appearing or producing documents for the committee. Implementation of the proposals which follow, regarding debate on committee reports on an opposition day, would provide an opportunity to bring such a failure to appear to the attention of the House.

Committee Reports A further dilemma for committees lies in the nature of the reports they prepare, and what happens to those reports once they reach the House of Commons. Standing Order 58 governs the business of Supply and Ways and Means but contains no guidelines about how the power to "examine and enquire" ought to be applied to Estimates; similarly, the orders governing procedure on public bills contain little guidance for committee consideration of legislation. Reporting procedures are, however, more clear. On legislation, committees must report a bill either with or without amendments. Estimates are treated differently. Committees may neither increase an amount nor alter the purpose of proposed expenditures, since this is the prerogative of the Crown. Rather, committees must report, for each department and agency examined, that they have adopted, rejected, or reduced any or all of the items of expenditure contained in the Estimates referred to them. The present practice has been influenced by a series of events.

Section 16 of Standing Order 58 prohibits debate on a motion to concur in the report on Estimates of any standing committee except on one of the Opposition's allotted days. In the course of making a ruling on this point, the Speaker of the day said, "If a standing committee is permitted to make reports of a substantive nature when considering the estimates of a department, it would follow that no limit could be placed on the number of reports from a committee. Surely the House would be hard pressed to consider all such reports."† The subsequent interpretation of that ruling has been such that standing committees reporting on Estimates have been permitted to approve, reduce, or eliminate Estimates, but reports of a substantive nature, including recommendations on

† Canada. House of Commons. *Journals*. No. 105, June 18, 1973, p. 420.

items relating to or contained in the Estimates, have not been allowed.

Substantive reports containing a summary of the issues and any recommendations of committees examining Estimates could further assist in making their review more meaningful and in improving the ability of parliamentarians to influence the direction of future programs and expenditures. In this connection, a further look at the interpretation of the Speaker's ruling on section 16 of Standing Order 58 would be useful. The examination of a committee's report on an allotted day is certainly permitted by the Standing Orders; however, because they may be considered only in this manner surely does not preclude the preparation of substantive reports. We suggest that the purpose of such a report by a committee should not be to seek the concurrence of the House in its recommendations; for detailed and complex reports this is meaningless in any case. Rather, the objective of such a report should be to reach an audience that can be influenced by it—ministers and departmental officials. Furthermore, the use of an allotted day to examine the Estimates of one department would be more attractive if a substantive report on which to base debate were available. Finally, debate on an allotted day provides a further incentive to better committee work and reports. To assist in achieving these goals, we recommend that

> **22.6 Standing Order 58.(16) be re-interpreted to make clear that substantive reports from House committees are desirable whether or not they are to be debated.**

House of Commons Procedure

The interpretation of the word "item" in Standing Order 58 is a source of frustration to MPs; a Speaker's ruling determined that "item" means "expenditure vote". As a result of the reform of estimates procedure in 1968, the Opposition cannot ask the House to reduce by a specified amount an item contained in the Estimates. The House can only concur in or oppose an entire expenditure item or vote; this is often the budget of a major program, and sometimes an entire department. A vote to oppose such an "item" in its entirety would obviously be undesirable. Moreover, as we

have noted, the Standing Orders preclude a vote, or even a debate, on a committee report containing a recommendation for the reduction of an expenditure item, except if the Opposition uses an allotted day for the purpose.

While we have acknowledged that the interests of MPs may not always lie in reducing expenditures, it should not be so difficult for them to do so if they wish. They should not have to reject an entire vote in order to achieve a reduction in one isolated area of expenditure, particularly when improved committee work will be able to provide information on which to base this type of recommendation. We recommend that

> **22.7 Standing Order 58 be amended to permit standing committees to recommend the partial reduction of an item of expenditure in the Estimates.**

Rule changes in the House of Commons during the period 1966-69 reduced to 25 the number of days allotted to consideration of Supply, shortened the time devoted in the House to the passage of Estimates, and transferred detailed consideration of Estimates from the House to its standing committees. While some have viewed this as an improvement over times when an unlimited number of days could be spent in Committee of the Whole examining Supply measures, or performing clause-by-clause examination of legislation, to many the rule changes represent an unacceptable curtailment of Parliament's ability to exercise some measure of control over public spending. It has also reduced the need for a minister to be intimately familiar with the programs and activities of his department. A balance should be struck between the pre-1968 system, which permitted almost unlimited delay in the passage of Supply, and the present arrangements, which guarantee that Supply will be passed almost despite grievances. Balance could be accomplished in several ways.

There ought to be more opportunities in the course of Estimates review and approval for private members to challenge the Government's plans in a meaningful way. In 1975, an agreement among the political parties permitted the Committee of the Whole to be revived temporarily in order to debate on an allotted day the Estimates of a single department, the Treasury Board. Prior to 1968, of course, all Estimates were examined in this way. The pre-1968 procedure had the advantage of focussing attention on

issues in a forum where they received more public attention and where differences of opinion could be clarified in a way not possible in committee. It was, however, extremely time-consuming. Still, if committees began making substantive reports, a revival of the 1975 experiment would be useful. The opposition could use an allotted day for a debate on a department's Estimates, based on the report of a standing committee. Such a procedure would provide the benefits of the pre-1968 system without unduly delaying Estimates passage, and the House would benefit from the added advantage of the committee's report as the basis for debate.

Better Use of the Parliamentary Year We believe that better use of the parliamentary year could also enhance the quality of committee work by allowing more time to be devoted to it. Parliamentary committees generally hold more than 50% of their meetings for the whole year in a three-month period ending on May 31. During this time, committee meetings tend naturally to focus on the review of the Government's Estimates. In the years we examined, just over 50% of the meetings were devoted to such activity.

At the same time there is also a heavy concentration of meetings devoted to other committee activities, such as the examining of legislation and the conducting of investigations. Our study of committee activity showed, not surprisingly, that committee meetings are concentrated in the times when the House of Commons is in session. It also suggested, and this has been corroborated by the testimony of parliamentarians appearing before us, that there is leeway for re-arranging schedules and re-distributing workloads. This would accommodate our proposals respecting activities to be undertaken by parliamentary committees in addition to their responsibilities for legislation and Estimates. For example, we recommend that the proposed Fiscal Plan be presented and debated well in advance of the tabling of the next year's Estimates so that the debate will provide the framework for their examination. There would appear to be ample time for committee examination of the Plan in the October to December period. The Standing Orders of the House specifically authorize committees to meet whether or not the House itself is sitting. While many members have commitments outside Ottawa during the adjournment periods, several committees have successfully conducted business over the summer break. In addition, sub-committees, to which committees may delegate any of their powers save that of

reporting to the House, can usefully provide a method of gathering information so that the time of the whole committee can be profitably spent debating the issues.

Proposed Committee Activities

This section describes the tasks which committees of the House of Commons would be expected to undertake if Parliament is to assume its proper position as the source of authority and the place in which an accounting for the use of that authority is rendered. We set out below, under the committees of the House of Commons that would participate in their implementation, the proposals and recommendations made throughout our Report.

The Standing Committee on Government Finance and the Economy The proposed Committee on Government Finance and the Economy would provide the forum where the broad plans of Government could be exposed to public examination and debate. Thus, the Consolidated Estimates, described in Chapter 6, as well as any subsequent Supplementary Estimates, should be referred to this committee so that it could maintain a clear picture of the Government's proposed expenditures on a yearly basis and of their total levels in relation to past years. The Government's 5-year Fiscal Plan should also be permanently referred to the Standing Committee on Government Finance and the Economy.

We suggested earlier that standing committees could provide an important focus for the accountability of individual ministers. Since the Minister of Finance would appear before the Standing Committee on Government Finance and the Economy to present the Fiscal Plan, the same committee should also review and approve the Estimates of the Department of Finance. There is an equally important reason for this to occur. The Estimates of the Department of Finance contain provisions relating to transfer payments and to the national debt, elements essential to the Committee's consideration of the country's economic outlook. The approval of the Estimates of the Department of Finance by the same standing committee that would study the Fiscal Plan would contribute to the development of specialized knowledge and expertise among committee members and enhance the quality of both reviews. The same can be said of the review of the Estimates of the

Economic Council, which should also be conducted by this committee.

In addition, tax legislation arising out of the Budget should be referred to the Standing Committee on Government Finance and the Economy. Tax bills do not at present receive consideration outside Committee of the Whole. This precludes the presentation of views and recommendations by experts or interested outsiders whose advice could be drawn upon if the legislation were considered in a standing committee. This committee could provide the forum for discussion of proposed tax, fiscal policy, and structural changes. As the Canadian Tax Foundation recognized in its 1977 report to the Minister of Finance, the traditional notion of budget secrecy requires updating, subject, of course, to practical and ethical constraints, to permit improved discussion of the range of policy options under consideration.

Legislation in areas such as transportation, agriculture, and social assistance, being dealt with by other standing committees, could also affect the economy, and the Standing Committee on Government Finance and the Economy should be aware of these implications. For this reason we recommended in Chapter 5 that the committee receive specially prepared documents detailing the likely impact of legislative proposals on the Fiscal Plan. In summary, we recommend that

> **22.8 all legislation relating to taxation be referred to the Standing Committee on Government Finance and the Economy, and that this committee be informed of the likely effects on the Fiscal Plan of all other legislative proposals.**

Other Standing Committees Many of the tasks of the standing committees of the House of Commons need not be substantially changed, though their performance can be expected to improve as a result of the organizational and procedural changes we propose. Those requiring little change include the examination of individual departmental and Crown agency Estimates and the clause-by-clause study of legislation following second reading. We see two further tasks for these standing committees. One is the review of program impact; the second is the periodic review of the mandates and performance of Crown agencies.

Assessing the Impact of Programs

With the growth of government activity and the expansion in the scope of its intervention, the effect or impact of programs is a matter of increasing concern. That the public service should be accountable for program delivery and its effects is of particular interest to Members of Parliament, who daily must deal with constituents' complaints about how the administration of governmental programs is affecting them. We found this aspect of accountability to be of primary importance to those who actually deliver programs and services, those public servants who manage and staff the regional and district offices of government departments and agencies. Accountability to the public for the quality of service was placed at the top of the list by each of the groups of public servants with whom we met outside Ottawa. In our Ottawa meetings it was much less frequently mentioned. The Government announced its intentions regarding program evaluation in the Speech from the Throne at the opening of the fourth session of the 30th Parliament: "In the further promotion of open and efficient government, a proposal will be placed before Parliament to provide for the review by Parliament of evaluations by the Government of major programs." Such information undoubtedly will provide useful supplementary material to members as they pursue their review tasks; however, it cannot be the basis for selecting the programs MPs will review. Committees themselves must decide what programs to review, when they are to be reviewed, how often, and in what degree of detail.

There are several important questions underlying the review of program impact. What effects are programs having? Are these acceptable to those being affected? Do programs meet real needs? Ought these needs to be met in some other way? More important than whether a program is achieving its objectives is whether the objectives themselves need to be pursued, or whether they can be achieved in another way. We see beneficial results from an approach to program review by MPs that starts with the premise that programs affect individuals, groups of individuals, or sectors of the economy, and seeks to determine whether these effects are beneficial, harmful, or neutral. We submit that this may be the only way that parliamentarians can indeed ensure their own accountability to the electorate for the impact of the policies and programs to which they have assented. The focus of program

impact reviews should be an analysis of programs, their effects, and the issues surrounding them. The views of program clientele and outside experts should be weighed against those of departmental officials involved in both the development and the actual delivery of programs. On the basis of their investigations, the committees should report to the House of Commons in the same manner as we propose for Estimates. Reports needs not be concurred in; their purpose is to provide material for the Estimates debates or debates on an allotted day. Complaints have been voiced that the opposition has difficulty in using all the allotted days in a meaningful way. The program impact study would provide ideal material for such a day's debate.

A further and perhaps more important purpose of these reports would be to influence the planning process engaged in by ministers and their departmental officials. If programs are not having the desired impact or if indeed they are having undesirable effects, then clearly a review that identifies these shortcomings must be considered by those who are planning future program activities and expenditures. One of the greatest benefits of program impact review would be the increase in communication between governors and governed on a basis more frequent than is permitted by the electoral system. While we urge greater openness and disclosure on the part of government, this should be accompanied by greater receptiveness and openness to suggestion. Program impact reviews would provide just such a channel for popular views on specific issues and policies to be carried back to government by those who represent the public.

We have observed that both the House of Commons and the Senate, through their respective committee systems, are already involved in carrying out program review though the basis for undertaking review is different in each case. For example, in 1976-77 a sub-committee of the House Committee on Justice and Legal Affairs conducted a comprehensive study of the penitentiary system in Canada following a reference from the House. The Standing Senate Committee on National Finance has produced three detailed reviews of specific government programs over the past four years. These reviews shared a number of common features. They represented more intensive and longer-term activities of committees than is usual for the examination of Estimates or legislation. For example, the 13 members of the sub-committee studying the penitentiary system met and travelled across Canada

and to the United States over a period of seven months. They heard testimony during 72 formal hearings from 407 witnesses and received briefs and letters from approximately the same number of groups and individuals. There were 225 hours spent in formal hearings and double that time in informal hearings. Similarly, the Senate Committee devoted almost two years of work to its most recent study on the Accommodation Program of the Department of Public Works.

Another feature shared by these reviews was the favourable reception given their reports, which were judged by informed audiences to be objective and credible. The Senate Committee's 1976 report on the Manpower Program of the Department of Manpower and Immigration was distributed to Manpower offices across the country and used as a basis for seminars. Furthermore, the department found that it could benefit from, and agreed to take action on, 52 of the committee's 56 recommendations.

Finally, we have noted that these program reviews were highlighted by a marked changed in the behaviour of members and thus in the manner in which reviews were conducted. Members devoted much more time to committee work, to meetings, and to preparation than has been the case in other committee activities. With the assistance of staff, members were better informed and prepared to pursue consistent and relevant lines of inquiry. Moreover the tendency for committees, particularly those of the House of Commons, to be dominated by partisan concerns was greatly reduced. An objective approach to review, which dispelled the usual atmosphere of confrontation between committee members and officials, and indeed, among members themselves, contributed greatly to the success of the exercise. Perhaps most important has been the knowledge that these reviews were considered necessary and timely. Members were assured of an interested and receptive audience for their reports.

We recognize that few such reviews have been carried out and that one of the principal reasons for this is the length of time they require. In presenting the concept of program impact studies, we are seeking a way to accommodate and balance these two seemingly irreconcilable requirements. On the one hand, there is the undisputed need for more programs to be reviewed in a comprehensive manner. On the other hand, we recognize the pressures that the time and effort required for these reviews will place on the schedules of members. It is for this reason that this chapter has

presented proposals for changing procedures and organization and for re-arranging the timetables of standing committees and the House to accomplish these necessary, if somewhat demanding, objectives. We recommend that

> **22.9 standing committees undertake, as the need arises or as time permits, in-depth studies of the impact of programs; and that these studies concentrate on reviewing the need for and the benefits conveyed by specific programs.**

Reviewing Crown Agency Mandates

In Part IV of this Report we recommended the institution of several types of review intended first, to ensure that Parliament receives an appropriate account of the activities of Crown agencies and second, to allow Parliament the opportunity to periodically re-examine the mandates and objectives it has assigned to Crown agencies.

The standing committees that deal with the Estimates of departments are the appropriate forums for the examination of various aspects of Crown agencies and corporations. We expect our proposals regarding procedures and organization to result in committees that develop, through continuity of membership, expertise in their subject-areas and in review techniques. The standing committees should, therefore, include in their work programs for a parliamentary session the periodic reviews recommended in Part IV. The type of review proposed depends on the category of Crown agency involved. Two kinds of review were recommended with respect to both *Independent Deciding and Advisory Bodies* and *Crown Corporations*. The first was a review of the activities of these bodies based on their annual reports. For agencies requiring appropriations, this review could provide background for the review of Estimates, or provide extra time for the consideration of a subject raised at the time of Estimates review. For others, the review would be a basis for assessing performance. The second kind of review relates to the constituent legislation and mandate of *Independent Deciding and Advisory Bodies* and *Crown Corporations* and would be based on a report by the designated minister, to be prepared not less than once every ten years. On the basis of this

report, and the committee's knowledge acquired in its regular review of annual reports, the relevant standing committee could conduct an investigation, hold hearings, and solicit public participation in an assessment of the continuing relevance of the agency's mandate and of the adequacy of its constituent legislation for carrying out this mandate. Such a review would not preclude the possibility that the committee would recommend to the House of Commons that the agency be discontinued if it had accomplished the objectives for which it had been established or if those objectives had become outdated.

We also recommended that the designated minister be required to table the results of a regular comprehensive review of the performance of *Shared Enterprises* with respect to their public responsibilities. The relevant standing committee should review this report and recommend action to Parliament; again, the review could recommend continuation or termination of federal interest in the enterprise.

These review activities should be undertaken by the standing committees before which the designated ministers appear. This would serve two purposes. First, it would take advantage of the subject expertise that will have been built up in each standing committee. Furthermore, these committees should tend to attract those members of Parliament most interested in and concerned about the policy area dealt with by each. Second, the treatment of Crown agencies by the parliamentary committee that also deals with the department through which they report will broaden the scope of the relationship between the committees and ministers who appear before them, thereby focussing on the personal responsibility of ministers for the departments, corporations, and agencies under their supervision. On the strength of this relationship and the degree of openness and co-operation exhibited by both sides will rest the quality of the review that the committee conducts on behalf of Parliament.

The Public Accounts Committee Our proposals respecting the Public Accounts Committee (PAC) recognize its pivotal role in the administrative accountability of government to Parliament. The PAC provides the forum in which the chief administrative officers of departments and agencies must account for the legality, probity, and prudence of government expenditures, and in which the Board of Management should account for its central responsibilities in establishing administrative policy and standards. We think that to

achieve its goals the review conducted by the PAC must be both regular and objective.

We have observed that departments and agencies have not appeared with regularity before the Public Accounts Committee, and frequently when there have been appearances, relatively little information has been forthcoming. This situation cannot provide the basis for a comprehensive review of administrative performance, nor can it give any assurance of accountability for that performance.

We examined the minutes and reports of the Public Accounts Committee during the 30th Parliament over the period October 1974 to June 1978, during which 170 meetings were held. Of these, 59, or approximately one-third, were devoted to the scrutiny of the accounts of government departments and agencies or to consideration of the Auditor General's comments on those accounts. The other two-thirds of the meetings, 111 sessions, were occupied with special investigations, special studies by the Auditor General not related to specific departments, study of legislation, and in camera meetings.

During the 59 meetings devoted to the review of the accounts of departments and agencies, 14 departments and 12 agencies received attention. In other words, from a potential list of approximately 75 departments and agencies, an average of only 7 per year were selected for review by the Public Accounts Committee. In fact, over the period we examined, 17 departments and many more agencies received no attention whatsoever from the Public Accounts Committee.

While it would be unreasonable to expect that every one of the departments and agencies appearing in the Public Accounts and audited by the Auditor General would be examined annually by the PAC, we think that a reasonable objective would be the review of all departments and agencies once, at the very least, during the normal 4-5 year life of a parliament. For departments, particularly where problems are discovered, or where follow-up is required, more frequent reviews should be feasible. The current sporadic and selective approach to review undermines the role the Public Accounts Committee could play in the accountability of government to Parliament. By building regularity into the schedule of meetings with departments the PAC could enhance the benefits derived from parliamentary scrutiny of administrative performance of government departments and agencies. Close liaison be-

tween the other standing committees and the PAC would also be desirable and sometimes essential in carrying out these responsibilities. For example, the PAC should be able to recommend further study by a standing committee of a particular program or other matter where difficulties were indicated by its own review. With its broader perspective on a department and its programs, a standing committee would be in a position to make better informed judgements about whether the PAC's findings reflect more general or widespread administrative or managerial problems.

In addition to regular review, objectivity should be the cornerstone of the PAC's approach to reviewing administrative performance. The nature of the PAC's task is to examine officials on their performance of a number of duties that can be objectively assessed. MPs have other opportunities in which to exhibit partisanship in confronting ministers; its display in the context of public accounts review would be detrimental to the process.

The PAC should also be equipped to conduct a more comprehensive review of administrative performance. At present it relies on the Auditor General's reports and the Public Accounts so that the focus of its scrutiny is, understandably, on the financial component of management. With the passage of the new *Auditor General Act* in 1977 the scope of the committee's examination has widened, since the Auditor General's reports are now dealing with the efficiency and economy with which departments and agencies employ human as well as financial resources, and departmental procedures to measure the effectiveness of programs. The PAC does not, however, receive an accounting on the other aspects of personnel management, which are just as important as financial considerations in the delivery of programs and services. Parliament needs the assurance that government-wide personnel management policies and procedures are being followed by departments and agencies and that they are achieving their intended results. For example, Parliament should know whether there is equal access for all Canadians to public service employment, and how successful governmental programs for improving representation from disadvantaged groups have been. The PAC should also examine the efficiency and effectiveness of training in improving the skills and competence of public servants and in remedying weaknesses such as those identified in this Report in financial management. Moreover, Parliament should receive reports on initiatives to improve

the sensitivity and responsiveness of public servants to the public they serve.

The annual report of the Public Service Commission provides some information on staffing and on the implementation of training and other policies assigned to the PSC by the Treasury Board. In addition, the annual report of the Commissioner of Official Languages deals with departmental compliance with the *Official Languages Act*. However, there is no parliamentary committee with a mandate to review and comment on the adequacy of personnel administration in government. We believe that the Public Accounts Committee, as the committee with responsibility for scrutinizing the quality of management in government, should fulfill this role. To do this, the PAC should receive the reports of the parliamentary monitor of the application of the merit principle in staffing, the Public Service Commission, and the report of the Commissioner of Official Languages.

In meetings with the Secretary for Personnel Management the PAC should receive an explanation of, and an accounting for, the government-wide implementation of personnel management policies. This should include not just staffing, but also classification, pensions and other benefits, training, and all other aspects of personnel policy. In its sessions with deputy ministers and heads of Crown agencies, members of the PAC would be able to question and verify how these policies were being implemented at the departmental and agency level. Assistance and support from the Public Service Commission and the Commissioner of Official Languages, together with that now provided by the Auditor General, should give members of the committee a greatly improved insight into management in government. The implementation of our proposals with regard to the PAC would establish a single parliamentary forum where all elements of administration could be examined and in which officials of central agencies, departments and crown agencies could be held to account for their administrative performance.

The PAC should continue to conduct the review of departmental accounts, guided, but not limited, by the Auditor General's report on them. It should be noted that the Auditor General's new approach to comprehensive audit will provide much greater detail than is now available. The committee should also continue to seek responses to the Auditor General's comments from each of the

departments reviewed. This could include a request for an indication of the department's intended action to correct deficiencies or requests for other data that would give the committee a means of checking progress against intended actions in future reviews. The Auditor General currently follows the practice of publishing some departments' responses to his report. This practice should be adopted by the PAC as a routine part of its review and report. Departments and the central agencies should be asked to respond formally to the recommendations of the PAC and these should be published by the PAC as an appendix to its report to the House.

In addition, the committee would call on each deputy head to account for the manner in which he had carried out delegated and assigned responsibilities in the year covered by the accounts under study. This process was described earlier in Chapter 21. Given that the responsibility of the Board of Management is shared with or overlaps that of the deputy head, senior representatives of the Board should also be present at these sessions. The chief executive officers of *Independent Deciding and Advisory Bodies* should also account before the Public Accounts Committee for the manner in which they have discharged their administrative responsibilities in the same manner as deputy ministers account.

Accountability for the administration of *Crown Corporations* is somewhat different. We have emphasized that the accountability of these agencies must be focussed in the board of directors and that the chairman of the board be the link between the corporation and the Government and Parliament. The role of the PAC would be to call the chairman to account on behalf of the board for its responsibilities for direction and management, and the chief executive officer for the operating performance of the corporation.

An important task remains for the Public Accounts Committee. This is the review of the Auditor General's comments and recommendations on government-wide financial management and administrative issues contained in his annual report. The role of the PAC in this area would include the review of the Board of Management's response to the Auditor General's comments and the preparation of a report to the House with recommendations. This responsibility is not new; rather, it reflects the trend of procedure in the PAC over the past two years. The PAC has developed a practice of writing to the Secretary of the Treasury Board to request a progress report on steps taken in response to the Auditor General's report. This practice should continue to be

developed as a means of calling for an accounting for the central management responsibilities of government.

In order to meet the demands of these activities, the Public Accounts Committee may have to resort to the use of sub-committees to gather information or conduct specific investigations. To allow for this possibility, we have recommended that its membership be left at twenty.

Conclusion

It is evident from the foregoing that we are calling upon parliamentarians to place a great deal of confidence in, and a considerably increased workload on, the standing committees of the House of Commons. Our purpose is not to detract from the importance of the House of Commons itself, or from the need for the debate that goes on there, but rather to suggest to Members of Parliament a means by which they can increase the significance of that debate by equipping themselves with better information, more expeditious procedures, and a more streamlined organization.

While present arrangements provide that the undisputed need for the opposition parties to challenge the Government in the House and in committee on political issues will, at least in part, be satisfied, they do little to ensure that Parliament's influence will be extended to matters of accountability for management and administration. If Parliament is not in a position to require this accounting, whether because of the inadequacies of the mechanisms and procedures available to it, or because of a lack of will to stress these as important issues, there will be little reason for the Government, and in turn the public service, to pay as much attention to matters of administration as they do to the development of policy and the support of ministers in their various roles.

In particular, the political will and commitment to change must exist. It has been evident to us from our meetings with them that Members of Parliament are not satisfied with the way Parliament is working and that they recognize the need to improve it. Our proposals are thus based on the belief that the will to change exists and that it is sufficiently strong to overcome the technical and superficial difficulties which, in the absence of such a mobilizing force, might slow or stall reform. Furthermore, we would

emphasize that the changes we propose are in the spirit of our constitutional evolution to date and do not represent radical departures from it. Indeed, much can be accomplished simply by recognizing certain relationships and responsibilities that have existed for some time without the benefit or the protection of formalization.

APPENDICES

APPENDIX A

CLASSIFICATION OF GOVERNMENT DEPARTMENTS AND CROWN AGENCIES

This Appendix consists of lists of departmental and non-departmental entities, classified in our proposed four categories:

- I Ministerial and Other Designated Departments
- II Independent Deciding and Advisory Bodies
- III Crown Corporations
- IV Shared Enterprises

The list is as complete as possible but we do not claim to have ferreted out every stray entity. We would only claim that, in our comprehensive classification scheme, an appropriate place could, and should, be found for such elusive bodies.

We would observe that the listing of many agencies in a particular category is a judgement call. We have attempted to segregate those agencies about which we believe the Government, basing its decisions on the criteria we have developed, may wish to make its own judgement.

Before the classification scheme was developed, much time was devoted to reviewing the nomenclature used to identify different entities within government. We have arrived at two distinct groupings—*departments* and *Crown agencies*—in which all of the entities can be classified. It is necessary to use this Appendix in conjunction with Parts III and IV of our Report in order to ensure a full understanding of the nature and implications of our proposals with respect to categorizing government departments and agencies.

The Treasury Board Secretariat document, *Government-Owned and Controlled Corporations,* which was revised in January 1978, was used as an initial source in the development of the classification scheme. Schedule A of the *Financial Administration Act* indicating departments, and the list of "Branches Designated as Departments" pursuant to Section 2 of the FAA, added further to the number of entities. In addition, organizations like the Anti-Dumping Tribunal and the Restrictive Trade Practices Commission, which appear in none of these lists, were included in our scheme. The framework of our classification system emerged from a study of constituent acts, letters patent, articles of incorporation, and Orders in Council and from discussions with officials of departments and Crown agencies. The same ground was covered a second time in order to determine the particular classification for individual entities.

The fundamental distinction among these categories is the susceptibility of their constituents to direction from government with respect to policy and management. There are four options in this range: (1) susceptibility to direction with respect to both policy and management; (2) susceptibility to direction with respect to management but allowance for autonomy concerning interpretation of policy; (3) autonomy in management but susceptibility to direction with respect to policy; (4) autonomy in management and autonomy in policy interpretation. The first of these options applies to *Ministerial and Other Designated Departments,* the second to those bodies which are classified as *Independent Deciding and Advisory Bodies,* the third to *Crown Corporations,* the fourth to *Shared Enterprises.*

As we have suggested in our Report, difficult problems and anomalies are not easily avoided. When exceptions to the criteria for each category do appear, the implication is that these entities should be brought into line and their organizations altered so as to meet the requirements of the particular category.

At the head of each list appear criteria which the Commission has used to classify the departments and agencies. Although not all of the criteria apply to all of the entities in each category at the present time, an examination of their mandates and relationships with other parts of government suggested a prima facie case for their inclusion in a given category. Criteria that are not met at the present time are indicated in the column headed "Criteria Not Currently Met".

We undertook this exercise to determine the feasibility of our proposed classification system and to illustrate that, despite the idiosyncratic features of these entities, a common pattern could emerge that would underpin consistent accountability régimes and allow for a comprehensive listing of all governmental entities.

Classification of Government Departments and Crown Agencies

		Number Classified
CATEGORY I:	*Departments*	56
	A. Ministerial Departments	27
	B. Other Designated Departments	23
	C. Parliamentary Departments	6
	D. Temporary, Special Status Departments	fluctuates
CATEGORY II:	*Independent Deciding and Advisory Bodies*	30
	(a) Regulatory	14
	(b) Deciding Tribunals	6
	(c) Granting	6
	(d) Advisory/Research	4
CATEGORY III:	*Crown Corporations*	54
	Note: 1) This total of 54 includes 8 marketing agencies that the Government may not choose to classify in this category. 2) In a final Government classification of Crown Corporations, the names of all subsidiaries should be listed under the name of the parent Corporation.	
CATEGORY IV:	*Shared Enterprises*	25

Criteria for each category and sub-group appear at the top of each list.

Criteria that are not met at the present time by a given organization are indicated in the last column of each list.

"Present Classification" refers to the placement of an organization in the Schedules to the *Financial Administration Act*, the Treasury Board Secretariat lists, or the list of "Branches Designated as Departments" pursuant to Section 2 of the FAA.

Category I: Departments

A. *Ministerial Departments*

Criteria: (a) Established by act of Parliament.
(b) Care and management assigned to a minister who reports to Parliament.
(c) Designated a Department under (1) Financial Administration Act and (2) Public Service Employment Act.

Ministerial Department	Present Classification	Criteria Not Currently Met
Agriculture	Schedule A	
Communications	Schedule A	
Consumer and Corporate Affairs	Schedule A	
Employment and Immigration	Schedule A	
Energy, Mines and Resources	Schedule A	
Environment	Schedule A	
External Affairs	Schedule A	
Federal-Provincial Relations	Branch Designated	
Finance	Schedule A	
Indian Affairs and Northern Development	Schedule A	
Industry, Trade and Commerce	Schedule A	
Insurance	Schedule A	
Justice	Schedule A	
Labour	Schedule A	
Ministry of State for Science and Technology	Branch Designated	
National Defence	Schedule A	
National Health and Welfare	Schedule A	
National Revenue	Schedule A	
Privy Council Office	Branch Designated	(a)
Public Works	Schedule A	
Regional Economic Expansion	Schedule A	
Secretary of State	Schedule A	
Solicitor General	Schedule A	
Supply and Services	Schedule A	

Ministerial Department	Present Classification	Criteria Not Currently Met
Transport	Schedule A	
Treasury Board	Schedule A	
Veterans' Affairs	Schedule A	

B. *Other Designated Departments*

Criteria: (a) Established by act of Parliament.
(b) Care and management assigned to a Chairman, Director, Chief Commissioner, Board, etc. under the direction of a Minister who reports to Parliament.
(c) Performs a discrete governmental task.
(d) Designated as a Department under (1) Financial Administration Act and (2) Public Service Employment Act.

Other Designated Department	Portfolio	Present Classification	Criteria Not Currently Met
Canadian Intergovernmental Conference Secretariat	Prime Minister	Branch Designated	
Canadian International Development Agency	External Affairs	Branch Designated	
Canadian Penitentiary Service	Solicitor General	Branch Designated	
Commissioner for Federal Judicial Affairs	Justice	Branch Designated	
Canada Employment and Immigration Commission	Employment and Immigration	Schedule B	
National Library	Secretary of State	Branch Designated	
Northern Pipeline Agency	Minister Responsible	Branch Designated	
Office of the Co-Ordinator, Status of Women	Minister Responsible	Branch Designated	
Office of the Governor General's Secretary	Prime Minister	Branch Designated	
Public Archives	Secretary of State	Branch Designated	

Other Designated Department	Portfolio	Present Classification	Criteria Not Currently Met
Royal Canadian Mounted Police	Solicitor General	Branch Designated	see note*
Statistics Canada	Industry, Trade and Commerce	Branch Designated	
Statute Revision Commission	Justice	Branch Designated	

Anomalies

The remaining entities on this list are anomalous in some respects. Several are constituted in the corporate form for the purposes of holding funds, letting contracts, and being in the legal position to have suits and actions brought against, or taken by, them. Some are "convenience corporations", taking all direction from the minister, working closely with departmental personnel, and requiring no arm's length relationship. The existence of the corporate form for reasons of convenience is not a reason to include these organizations in the Crown Corporation category. On balance, it appears to be appropriate that these bodies be part of the departmental accountability régime. Some should be incorporated directly into the departments of the ministers to whom they are now responsible and should be accountable for their operations to those departments' deputy heads. These are marked in the list with an asterisk. Those not so marked should be classified with *Other Designated Departments*.

Other Designated Department	Portfolio	Present Classification	Criteria Not Currently Met
*Army Benevolent Fund	Veterans' Affairs	Other Entity	(d)(2)
Canadian Arsenals Limited	Supply and Services	Schedule C	(d)(2)
Agricultural Stabilization Board	Agriculture	Schedule B	
*Commonwealth War Graves Commission	Veterans' Affairs	Other Entity	
Crown Assets Disposal Corporation	Supply and Services	Schedule C	(d)(2)

* Unique management powers and decision-making authority have been delegated directly to the Commissioner of the RCMP with respect to members of the Force. In all other respects, however, including PSEA appointment of civilian personnel, the RCMP fits this category.

Other Designated Department	Portfolio	Present Classification	Criteria Not Currently Met
*The Custodian (of Enemy Property)	Veterans' Affairs	Other Entity	
Defence Construction (1951) Limited	Defence	Schedule C	(d)(2)
*Director of Soldier Settlement	Veterans' Affairs	Schedule B	
*Director, The Veterans' Land Act	Veterans' Affairs	Schedule B	
Foreign Investment Review Agency	Industry, Trade and Commerce	Branch Designated	
Federal Insolvency Trustee Agency	Consumer and Corporate Affairs	Other Government Corporation	
*Last Post Fund	Veterans' Affairs	Other Entity	
Municipal Development and Loan Board	Finance	Schedule B	(d)(2)
Public Works Lands Company Limited	Public Works	Other Government Corporation	(d)(2)
Standards Council of Canada	Industry, Trade and Commerce	Other Government Corporation	(d)(2)
*The National Battlefields Commission	Indian Affairs and Northern Development	Schedule C	(d)(2)
Uranium Canada Limited	Energy, Mines and Resources	Schedule C	

C. *Parliamentary Departments*

Criteria: (a) Established by act of Parliament.
(b) Report to Minister, Prime Minister, or Speaker.
(c) Care and management assigned to a Chairman, Chief, Director, etc.
(d) Designated a Department under (1) Financial Administration Act and (2) Public Service Employment Act.
(e) (1) Appointment and (2) dismissal subject to confirmation by joint resolution of both Houses.

Parliamentary Department	Portfolio	Present Classification	Criteria Not Currently Met
Auditor General	Finance	Branch Designated	(d)(2); (e)(1)
Canadian Human Rights Commission	Justice	Branch Designated	
Chief Electoral Officer	President of the Privy Council	Branch Designated	
Commissioner of Official Languages	Prime Minister	Branch Designated	
Public Service Commission	Secretary of State	Branch Designated	(e)(1)
Representation Commissioner	Secretary of State	Branch Designated	(d)(2)

D. *Temporary, Special Status Departments*

Criteria: (a) Created by Order in Council.
(b) Appointed on a temporary basis, disbanded when work is completed.

examples: Indian Claims Adjudication
Special Inquirer for Elder Indians' Testimony
Task Force on Canadian Unity
Royal Commissions

Category II: Independent Deciding and Advisory Bodies

Criteria:
(a) Established by constituent act.
(b) Adjudicative, regulatory, granting, research and advisory functions assigned to a Board that acts in a collegial manner.
(c) Chairman is assigned care and management of the body.
(d) Autonomy is secured by the appointments of Chairman and members (1) for terms held on "good behaviour" and (2) being subject to termination by "removal for cause".
(e) Management is subject to provisions of (1) Financial Administration Act and (2) Public Service Employment Act.

Independent Deciding and Advisory Body	Portfolio	Present Classification	Criteria Not Currently Met
(a) *Regulatory*			
Anti-Dumping Tribunal	National Revenue	not scheduled or listed	(d)(2); (e)(2)
Anti-Inflation Board	Finance	Branch Designated	(d)(1),(2)
Atomic Energy Control Board	Energy, Mines and Resources	Schedule B	(d)(1),(2); (e)(2)
Canada Labour Relations Board	Labour	Branch Designated	(d)(1),(2)
Canadian Radio-television and Telecommunications Commission	Communications	Branch Designated	(d)(2)
Canadian Transport Commission	Transport	Branch Designated	(d)(1),(2)
International Boundary Commission	External Affairs	Other Entity	(d)(1),(2); (e)(1),(2)
International Joint Commission	External Affairs	Other Entity	(d)(1),(2); (e)(1),(2)

Independent Deciding and Advisory Body	Portfolio	Present Classification	Criteria Not Currently Met
National Energy Board	Energy, Mines and Resources	Branch Designated	
Office of the Administrator Under the Anti-Inflation Act	National Revenue	Branch Designated	(d)(1),(2)
Petroleum Compensation Board	Energy, Mines and Resources	Branch Designated	(d)(1),(2)
Public Service Staff Relations Board	President of Privy Council	Branch Designated	(d)(1)
Restrictive Trade Practices Commission	Consumer and Corporate Affairs	not scheduled or listed	(e)(2)
Tariff Board	Finance	Branch Designated	(e)(2)
(b) *Deciding Tribunals*			
Canadian Pension Commission	Veterans' Affairs	not scheduled or listed	(d)(1),(2)
Immigration Appeal Board	Employment and Immigration	Branch Designated	
National Parole Board	Solicitor General	Branch Designated	(d)(2)
Pension Appeal Board	National Health and Welfare	not scheduled or listed	(d)(1),(2); (e)(2)
Tax Review Board	Finance	Branch Designated	(d)(1),(2); (e)(2)
War Veterans Allowance Board	Veterans' Affairs	not scheduled or listed	(d)(1),(2); (e)(2)
(c) *Granting*			
Canada Council	Secretary of State	Other Government Corporation	(d)(1),(2); (e)(2)
Canadian Film Development Corporation	Secretary of State	Schedule C	(d)(1),(2); (e)(2)
International Development Research Centre	External Affairs	Other Entity	(d)(1),(2); (e)(1),(2)
Medical Research Council	National Health and Welfare	Schedule B	(d)(1),(2); (e)(2)
Natural Sciences and Engineering Research Council	Science and Technology	Schedule B	(d)(1),(2); (e)(2)
Social Sciences and Humanities Research Council	Secretary of State	Schedule B	(d)(1),(2); (e)(2)

Independent Deciding and Advisory Body	Portfolio	Present Classification	Criteria Not Currently Met
(d) *Advisory/Research*			
Advisory Council on the Status of Women	Minister Responsible	not scheduled or listed	(d)(1),(2); (e)(2)
Economic Council of Canada	Prime Minister	Schedule B	(d)(1),(2); (e)(2)
Law Reform Commission	Justice	Branch Designated	
Science Council of Canada	Science and Technology	Schedule B	(d)(1),(2); (e)(2)

Category III: Crown Corporations

Criteria:
(a) Established by constituent act, letters patent/articles of incorporation under Canada Business Corporations Act, or provincial acts.
(b) Tasks akin to private sector entrepreneurial undertakings in a market setting.
(c) Wholly-owned by government.
(d) Board collectively is assigned care and management of the corporation as in the private sector.
(e) Separate employer, outside Public Service Employment Act.
(f) Minister may give direction.

Crown Corporation	Portfolio	Present Classification	Criteria Not Currently Met
Air Canada (and subsidiaries)*	Transport	Schedule D	
Atomic Energy of Canada Limited	Energy, Mines and Resources	Schedule C	
Bank of Canada	Finance	Other Government Corporation	
Canada Deposit Insurance Corporation	Finance	Schedule D	
Canadair (and subsidiaries)	Industry, Trade and Commerce	Other Government Corporation	
Canadian Broadcasting Corporation (and subsidiaries)	Secretary of State	Schedule D	
Canadian Commercial Corporation	Industry, Trade and Commerce	Schedule C	
Canadian National Railways (and subsidiaries)	Transport	Schedule D	

* in final Government classification of Crown Corporations, the names of all subsidiaries should be listed under the parent corporation.

Crown Corporation	Portfolio	Present Classification	Criteria Not Currently Met
Cape Breton Development Corporation (and subsidiaries)	Regional Economic Expansion	Schedule D	
Central Mortgage and Housing Corporation	Minister Responsible	Schedule D	
Eldorado Nuclear Limited (and subsidiaries)	Energy, Mines and Resources	Schedule D	
Export Development Corporation	Industry, Trade and Commerce	Schedule D	
Farm Credit Corporation	Agriculture	Schedule D	(d) Chairman has care
Federal Business Development Bank	Industry, Trade and Commerce	Schedule D	
Harbour Commissions	Transport	Other Government Corporation	
Belleville Fraser River Hamilton Lakehead Nanaimo North Fraser Oshawa Port Alberni Toronto Windsor Winnipeg and St. Boniface			
Harbour Front Incorporated (207 Queen's Quay West)	Minister Responsible	Other Government Corporation	
Loto Canada	Minister Responsible	Schedule C	(d) Chairman has care
National Arts Centre Corporation	Secretary of State	Other Government Corporation	
National Capital Commission	Minister Responsible	Schedule C	
National Film Board	Secretary of State	Branch Designated	(d) Minister has care
National Harbours Board	Transport	Schedule C	
National Museums of Canada	Secretary of State	Schedule B	(d), (e)
National Research Council (and subsidiaries)	Science and Technology	Schedule B	(d)
Northern Canada Power Commission	Indian Affairs and Northern Development	Schedule C	

Crown Corporation	Portfolio	Present Classification	Criteria Not Currently Met
Northern Transportation Company Limited (and subsidiaries)	Transport	Schedule D	
Petro-Canada (and subsidiaries)	Energy, Mines and Resources	Schedule D	
Pilotage Authorities Atlantic Great Lakes Laurentian Pacific	Transport	Schedule D	(d) Chairman has care
Royal Canadian Mint	Supply and Services	Schedule C	(d) Master has care
The deHavilland Aircraft of Canada Limited (and subsidiaries)	Industry, Trade and Commerce	Other Government Corporation	
Teleglobe Canada (and subsidiaries)	Communications	Schedule D	
The St. Lawrence Seaway Authority	Transport	Schedule D	(d) Chairman has care
The Seaway International Bridge Corporation Limited	Transport	Schedule D	(d) Chairman has care
VIA Rail Canada Incorporated	Transport	Schedule D	

Anomalies

As we have previously noted, various entities present major problems when an attempt is made to classify them. This is particularly true of marketing agencies which, while they are commercially oriented, perform an important regulatory or advisory function. It must be asked whether the Government wishes to have these bodies susceptible to direction with respect to policy and management, only with respect to management, or only with respect to policy. Government may decide to make some or all of these entities more susceptible to ministerial direction and would then classify them as *Independent Deciding and Advisory Bodies.*

note: with respect to the Post Office: the Government has introduced legislation to redesignate the Post Office as a Crown corporation. The same criteria as apply to these listed Crown Corporations should apply to a Post Office Corporation.

Alternatively, it may decide that some or all of these agencies should operate as *Crown Corporations*, meeting the criteria set down for that category. We have included them here as *Crown Corporations*, indicating the criteria that are not currently met by these organizations.

Agency	Portfolio	Present Classification	Criteria Not Currently Met
Agricultural Products Board	Agriculture	Other Entity	(d)
Canadian Dairy Commission	Agriculture	Schedule C	(d)
Canadian Livestock Feed Board	Agriculture	Schedule C	(d)
Canadian Saltfish Corporation	Environment	Schedule C	
Fisheries Prices Support Board	Environment	Schedule B	(d)
Freshwater Fish Marketing Corporation	Environment	Schedule D	
National Farm Products Marketing Council —The Canadian Egg Marketing Agency —The Canadian Turkey Marketing Agency	Agriculture	Other Entity	(e)
The Canadian Wheat Board	Minister Responsible	Other Government Corporation	

Category IV: Shared Enterprises

Criteria: (a) Established by constituent act or letters patent/articles of incorporation.
(b) Government has taken a direct equity position in common with other participants.
(c) Board collectively has care and management as in the private sector.
(d) Minister does not have authority to direct but is entitled to shareholder information.

Enterprise	Portfolio	Other Interests
Abenaki Motel Limited	Indian Affairs and Northern Development	Native Peoples Organizations
Association for the Export of Canadian Books	Secretary of State	Private Industry
Blue Water Bridge Authority	Transport (from External)	Government of the U.S.A.
Canada Development Corporation	Finance	Private Investors
Canadian Arctic Producers Limited	Indian Affairs and Northern Development	Native Peoples Organizations
Canadian Book Design Committee Incorporated	Industry, Trade and Commerce	Private Industry
Canadian Colour and Fashion Trend Service	Industry, Trade and Commerce	Private Industry
Canarctic Shipping Company Limited	Transport	Private Industry
Consolidated Computer Incorporated	Industry, Trade and Commerce	Government of Ontario and Private Investors
Crane Cove Oyster Farm Limited	Indian Affairs and Northern Development	Native Peoples Organizations
Fashion Canada	Industry, Trade and Commerce	Private Industry
Footwear and Leather Institute of Canada	Industry, Trade and Commerce	Private Industry

Enterprise	Portfolio	Other Interests
La Société Inter-port du Québec	Regional Economic Expansion	Government of Québec
Metropolitan Area Growth Investments Limited	Regional Economic Expansion	Government of Nova Scotia
Mohawk St. Regis Lacrosse Limited	Indian Affairs and Northern Development	Native Peoples Organizations
Nanisivik Mines Limited	Indian Affairs and Northern Development	Private Industry
New Brunswick Multiplex Corporation Limited	Regional Economic Expansion	Government of New Brunswick
Newfoundand and Labrador Development Corporation	Regional Economic Expansion	Government of Newfoundland and Labrador
La Société du parc industriel et commercial aéroportuaire de Mirabel	Regional Economic Expansion	Government of Québec
POS Pilot Plant Corporation	Industry, Trade and Commerce	Government of Saskatchewan and private industry
Roosevelt Campobello International Park Commission	External Affairs	Government of the U.S.A.
Shong Way Shi Corporation	Indian Affairs and Northern Development	Native Peoples Organizations
Saint John Harbour Bridge Authority	Finance	Government of New Brunswick and City of Saint John
Telesat Canada	Communications	Telecommunications Utilities
Thousand Islands Bridge Authority	Transport	Government of the U.S.A.

Quasi-public Corporations

Consideration must also be given to organizations that have been encouraged by government and sponsored by government departments. Although we do not see a need to classify these entities at the present time, it is necessary that the public be aware

of their existence and of the sums that are paid out to these organizations from the public purse.

The characteristics of these *Quasi-public Corporations* are as follows: (1) a minister initially sponsors and encourages the creation of an organization under Part II of the *Canada Corporations Act*; (2) the government participates in a private sector organization; (3) the government may name some members to the boards of the corporations. Examples are listed below.

Corporation	Sponsoring Minister	Present Classification
Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children	Prime Minister	Other Entity
Canadian Law Information Council	Justice	Other Entity
The Forest Engineering Research Institute of Canada	Environment	Other Entity
Hockey Canada	National Health and Welfare	Other Government Corporation
National Sports and Recreation Centre Incorporated	National Health and Welfare	Other Government Corporation
Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children	Prime Minister	Other Entity
Sport Participation Canada Incorporated	National Health and Welfare	Other Government Corporation
Vanier Institute of the Family	National Health and Welfare	Other Entity

APPENDIX B

THE DEPUTY HEAD QUESTIONNAIRE

During May and June of 1977 the Commissioners met informally with most deputy heads to discuss the roles and responsibilities of the deputy head in government. After these meetings it was decided that a comprehensive review of the opinions of deputy heads would assist the Commission in developing practical and appropriate recommendations concerning the accountability framework for deputies, the methods by which they are personally evaluated, and the wider administrative and policy-making environment in which they operate.

To this end a questionnaire was designed by consultants to the Commission, reviewed and revised by the Commissioners, and sent to 27 deputy heads. All replied to the questionnaire. The responses were processed by computer and the results were tabulated and analyzed under seven headings:

- Characteristics of the Respondents
- Process for Appointing Deputy Heads
- Deputy Heads as Chief Administrative Officers
- Roles of the Central Agencies in Management
- Central Planning and Resource Allocation
- Evaluation of Deputy Head Administrative Performance
- Relationship between the Minister and the Deputy

This appendix contains the findings and analysis of the Questionnaire accompanied by charts to aid in clarifying the response patterns that emerged. The full Questionnaire with a tabulation of

the aggregated responses and a list of those governmental bodies the deputy heads of which received the questionnaire are included as well.

Findings and Analysis

Characteristics of Respondents (Questions A-1 to A-7*)

Deputies manage departments of all sizes, about half of which have a senior assistant deputy minister or equivalent. Nine of the 27 deputies were appointed from outside the public service and head departments of every size and orientation, with the exception of departments with "more policy than operations".

There was no clear relation between departmental orientation and deputies' ratings of policy load, or scope and complexity of operations. In making interdepartmental comparisons, most deputies tended to perceive both their policy loads and the scope and complexity of their operations as greater than average.

Process for Appointing Deputy Heads

The deputies were of the view that the process of appointment was been guided by the principle of merit and generally had produced good appointments.

Other responses indicated the possibility of a morale problem among deputies. A surprisingly large number of deputies indicated a low level of job satisfaction and displayed a lack of confidence in the system's capability to deal effectively and fairly with deputies whose performance became unsatisfactory.

Despite the fact that deputies described their responsibilities for administration as more important than the provision of policy advice, they believed that policy skills were valued more highly than administrative skills in the selection of deputies. Most deputies agreed that there was satisfactory consultation prior to their appointment but they also said that they were not told what was expected of them.

* Alpha-numeric symbols refer to sections and questions in the Questionnaire. These are to be found in the aggregate responses to the questionnaire.

Responses indicating the view that appointments are made on the basis of merit

Almost all deputies believe that "On balance, the better deputy heads are recognized and move ahead in the system"

B-21

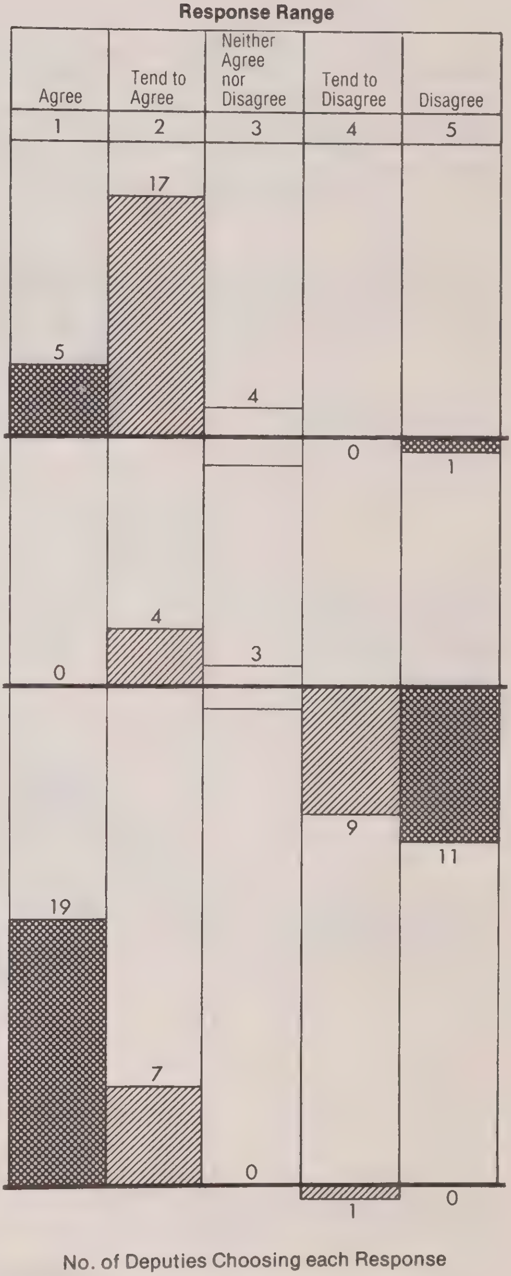
Most deputies disagree that "DM career success is based more on who you know, rather than what you do"

B-18

— One deputy noted: "The initial appointment may be on who knows you (not who you know), but continuity and progression and moves depend on performance."

All deputies but one agree that "Most deputies could faithfully serve a government formed by another political party"

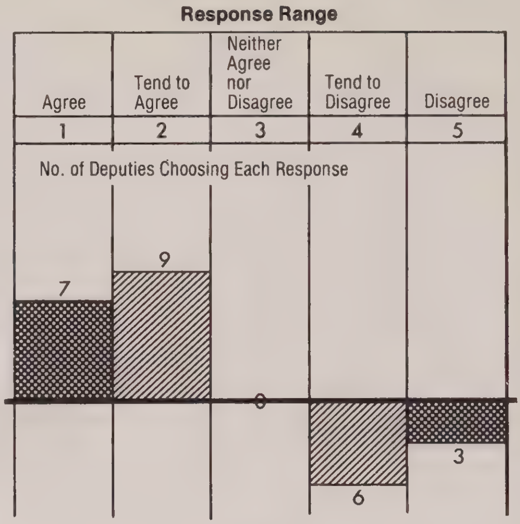
B-31



Responses suggesting a possible morale problem among deputies

Eleven deputies did not agree that "the satisfactions of the DM position are well worth the personal investment required."

B-23

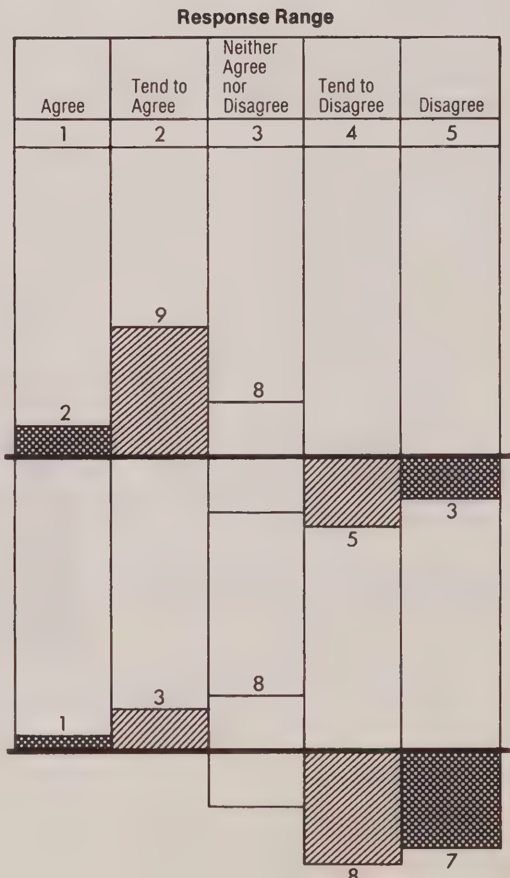


Only 40% of deputies agreed that "a good deputy who wears out early because of job pressure is treated well."

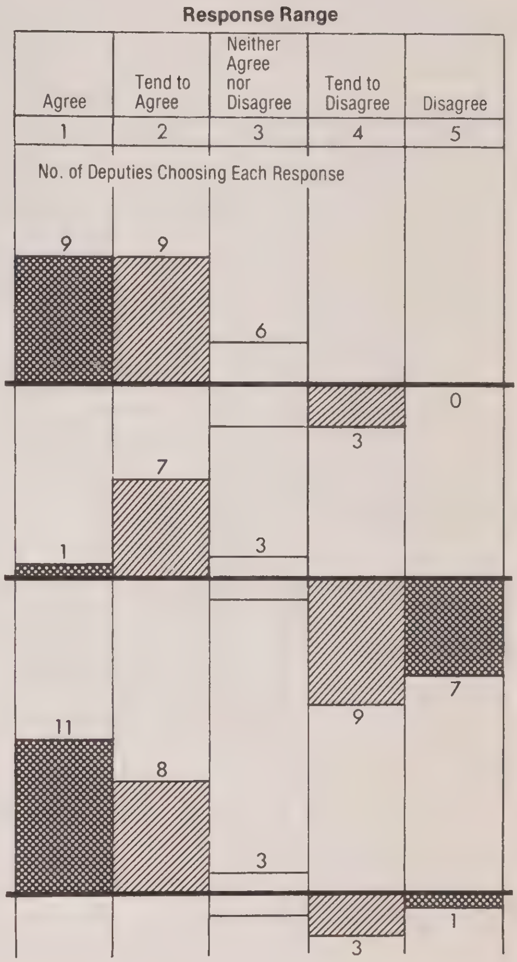
B-25

Only 4 deputies agreed that "deputies not performing satisfactorily are dealt with effectively."

B-22



Responses suggesting a perception that policy skills were rated more highly than administrative skills in deputy head selection



Nearly two-thirds of deputies agreed that "In DM appointments, policy skills are valued more highly than administrative skills"

B-19

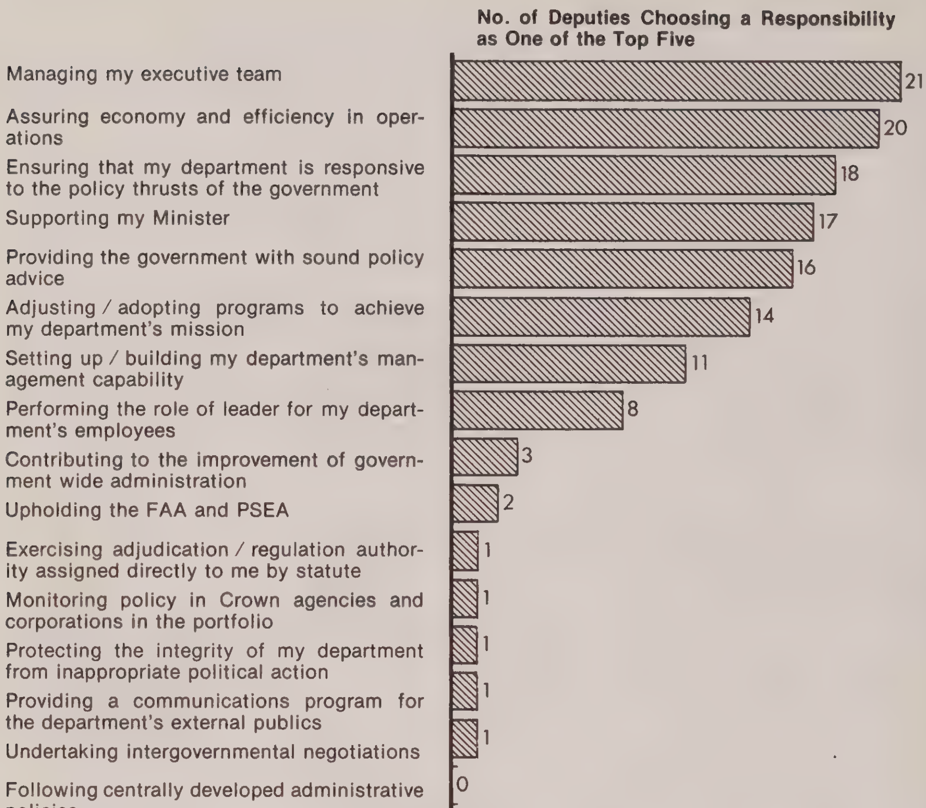
And deputies do not agree that "Administrative skills are given sufficient consideration in making DM appointments"

B-20

Almost all agreed that "Senior management experience is more important to DM success than knowledge of government administrative procedures"

B-29

Responses to the Ranking of Responsibility Statements



(D-1)

None of the Listed Responsibilities was Selected by all 27 Deputies

Deputy Heads as Chief Administrative Officers

Responses indicated that deputies regarded themselves as both general managers of their departments and as policy advisers to their ministers. In selecting the five most important statements of responsibilities they chose as follows:

- managing my executive team
- assuring economy and efficiency in operations
- supporting my minister
- ensuring that my department is responsive to the policy thrusts of the government
- providing the government with sound policy advice

However, when asked to rank these responsibilities on a scale of one to five, there was no uniformity about whether policy advice or administration was more important. Generally, deputies of policy-oriented departments chose policy advice and deputies of operations-oriented departments chose administration.

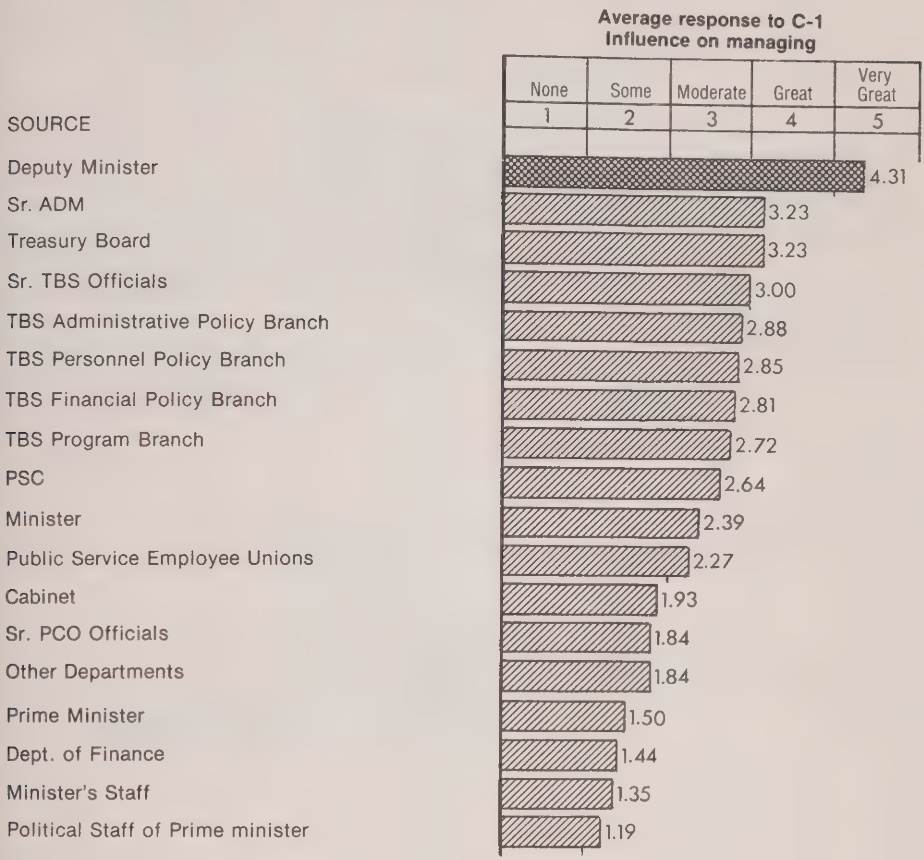
A majority of deputies indicated that they had sufficient authority and tools to be effective managers, although there was a significant minority of managers of larger departments with an operations orientation who disagreed. The majority indicated they could hire and deploy their management team adequately and that they could delegate responsibilities to senior officers and hold them to account. Most deputies believed that they themselves had the most influence on the management of their departments. Most agreed that dealing with unsatisfactory performers was a big problem and they wanted to have more authority in this area. Most agreed that they are able to develop clear sets of objectives for the department and to keep to their management priorities. They believed that they were personally responsible for ensuring good financial controls and regarded their financial officers as important participants in program and policy development.

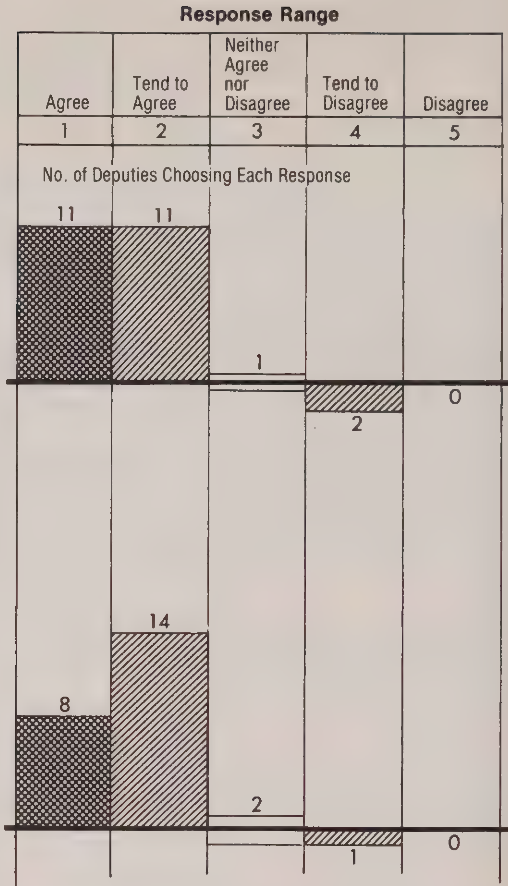
Deputies also indicated that they could and should be accountable for their administration. Most deputies agreed that they account for their administration in meetings with the minister and that House of Commons committees should be able to hold them to account for departmental administration. A majority of deputies did not believe that Treasury Board had a good knowledge of a deputy head's administrative performance.

While there is agreement on the overall set of responsibilities, deputies show little consistency in ranking them. The ranking of responsibilities — if it is appropriate at all — depends on the particular circumstances the DM faces.

RESPONSIBILITY	No. of Deputies Ranking First	Second	Third	Fourth	Fifth
Managing my executive team	5	1	7	5	3
Assuring economy and efficiency in operations	1	1	7	6	5
Ensuring that my department is responsive to the policy thrusts of government	4	5	4	2	3
Supporting my minister	4	5	2	2	4
Providing the government with sound policy advice	4	4	2	4	2
Adjusting / adopting programs to achieve my department's mission	3	2	2	3	4
Setting up / building my department's management capability	3	4	2	0	2
Performing the role of leader for my department's employees	3	1	0	3	1

Responses on Authority and Capacity to Manage





Deputies overwhelmingly agree that they "Have developed a clear set of objectives for the department"

B-66

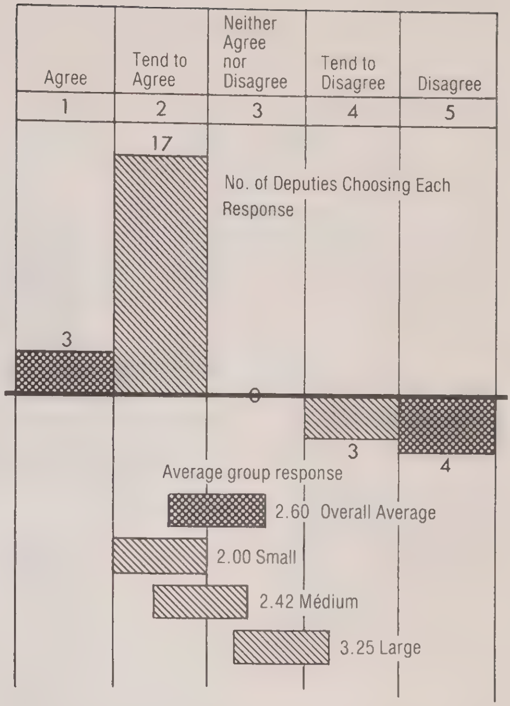
And that they are "Able to keep pretty well to the management priorities that they set"

B-70

Nearly three-quarters of deputies agree that they "Have adequate authority to hire their management team"

B-45

The larger the department, the more likely deputies are to disagree



Almost everyone said that "Controlling costs should be an important factor in my overall evaluation"

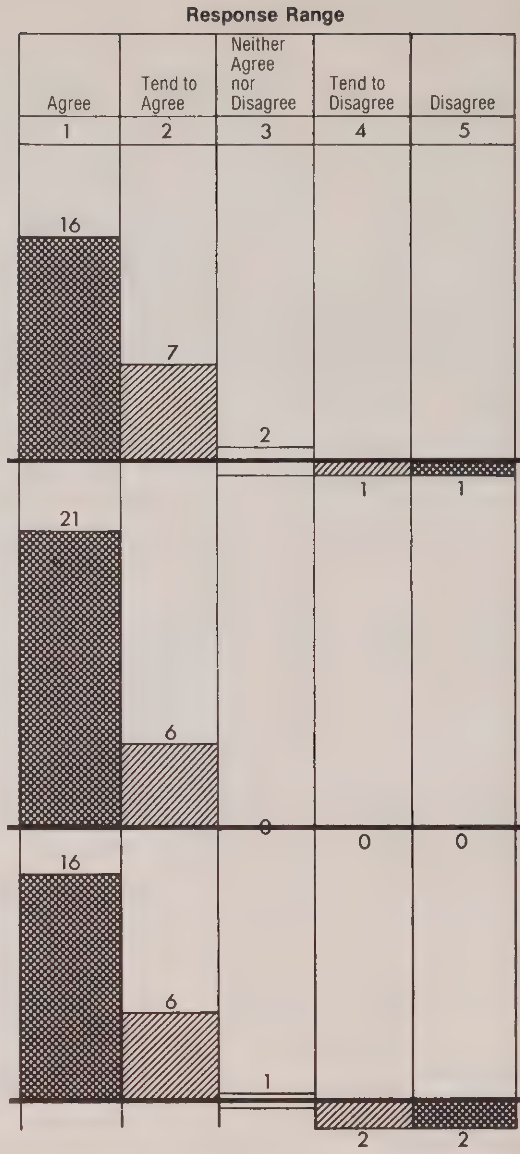
B-10

Deputies are in complete agreement that they "Feel personally responsible for ensuring we have good financial controls"

B-84

And the vast majority agreed that they are "Given early warning of possible significant variances from budget"

B-95



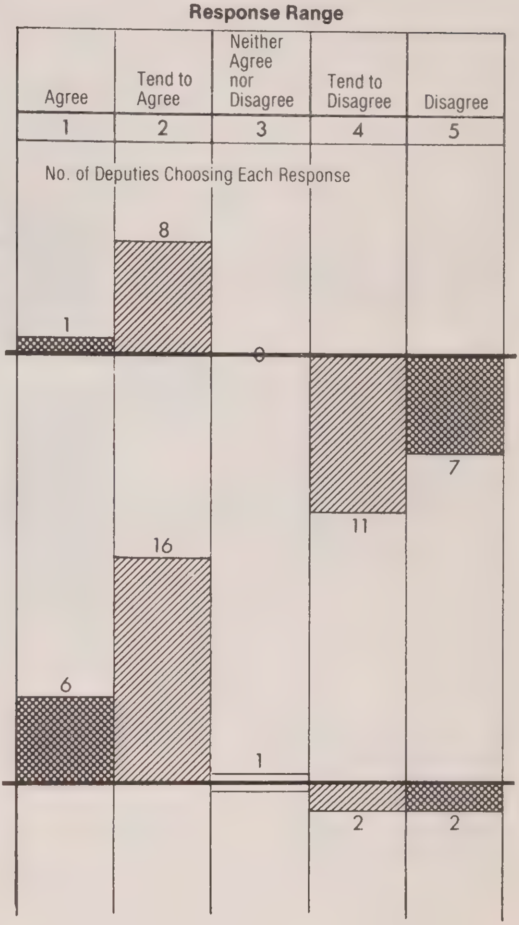
Responses on Unsatisfactory Performers

About two-thirds of deputies do not agree they "Have adequate authority to get rid of unsatisfactory members of their management team"

B-46

22 deputies agreed that "I need new options to deal with performance problems of executives in my department"

B-54



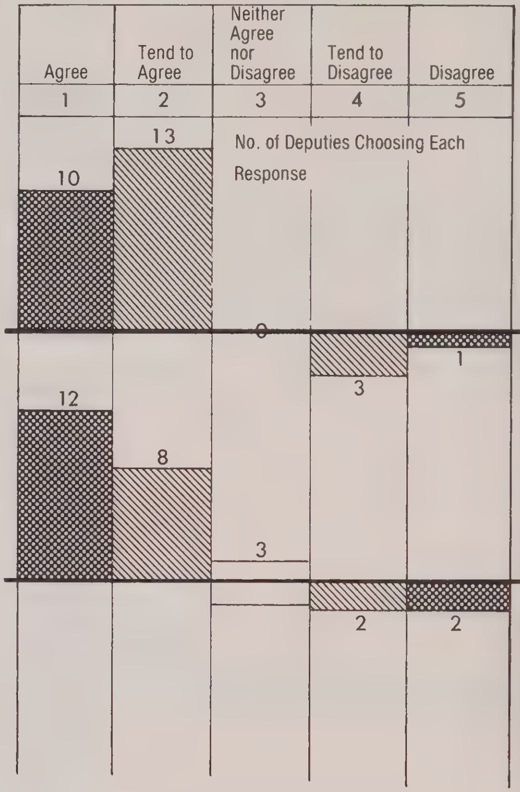
Responses on Accounting for Departmental Administration

23 deputies agreed that "House Committees should be able to hold me to account for departmental administration."

B-91

20 deputies agreed that "I account for the administration of the department in meetings with my minister."

B-92



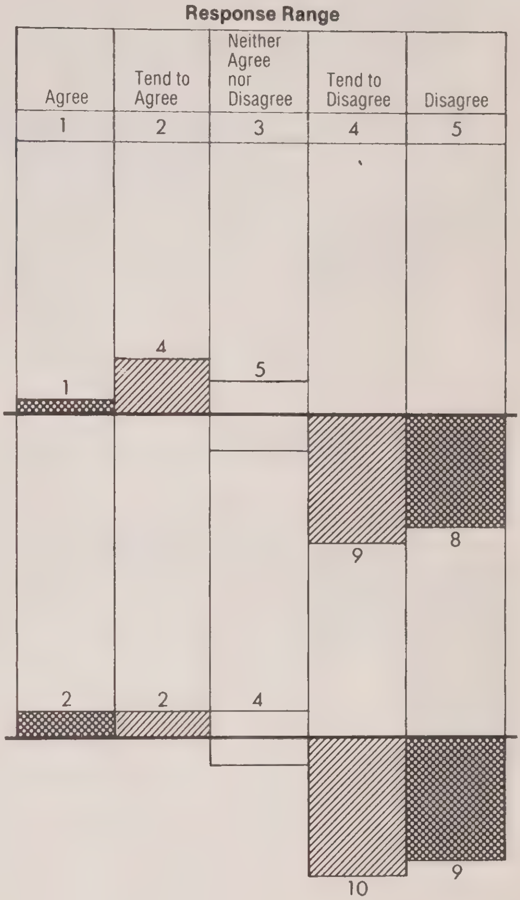
Responses on Treasury Board and Public Service Commission on Roles in Central Management

Only a few deputies indicated that "TB does not hold me accountable for the use of delegated authority"

B-15

Similarly, only a small number of deputies indicated that "PSC does not hold me accountable for the use of delegated authority"

B-16

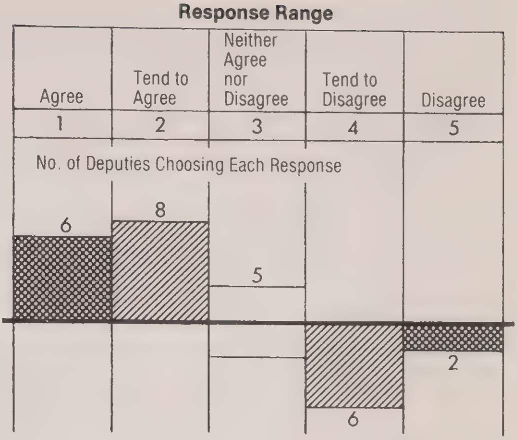


Roles of the Central Agencies in Management

Deputies had mixed reactions to the roles played by central agencies. Their views about the Treasury Board Secretariat's knowledge of and sympathy for the problems of departmental management were also mixed. They indicated that they were not satisfied with the performance of the central agencies with respect to personnel matters, particularly in regard to consultation prior to the negotiation of collective agreements.

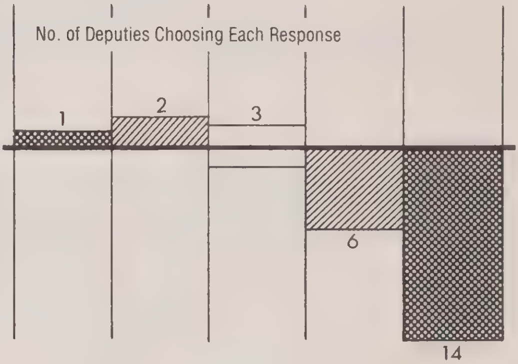
More than half agreed that "TBS personnel systems frustrate my efforts to manage the department"

B-78

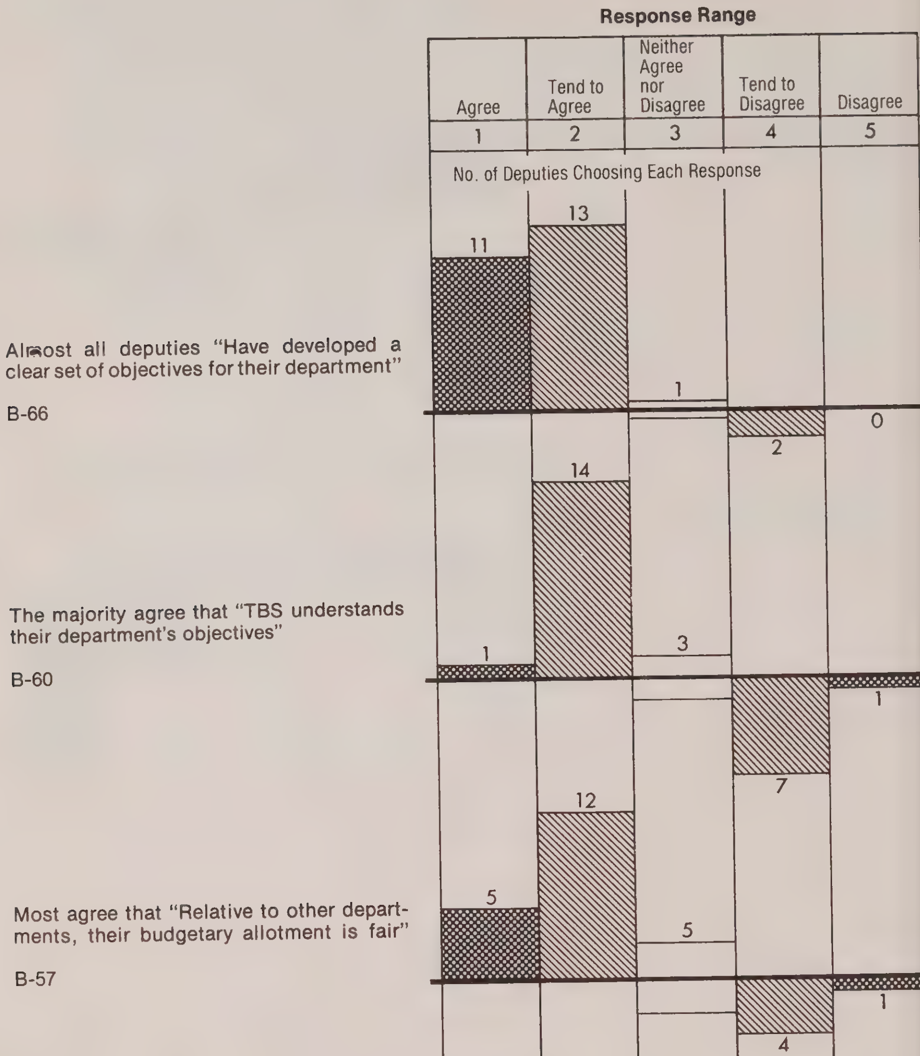


And only 3 say that "TBS effectively consults with me prior to negotiating collective agreements"

B-87



Responses on the Treasury Board Secretariat's Understanding of Departmental Objectives



In general, the deputies' responses gave the impression that the approach of the central agencies to questions of management in departments is neither co-ordinated nor consistent. One deputy said that "the burden of housekeeping in departmental administration continues to grow at a such a pace and to increase to such levels as to inhibit the effective performance of a deputy's main responsibility—to see that the department's job gets done."

On the issue of central agency controls of the careers of senior executives, most deputies agreed that central career development planning should be improved (B-34); however, the majority did not indicate a willingness to change current practices to give central agencies more influence over the career development of senior executives (B-35).

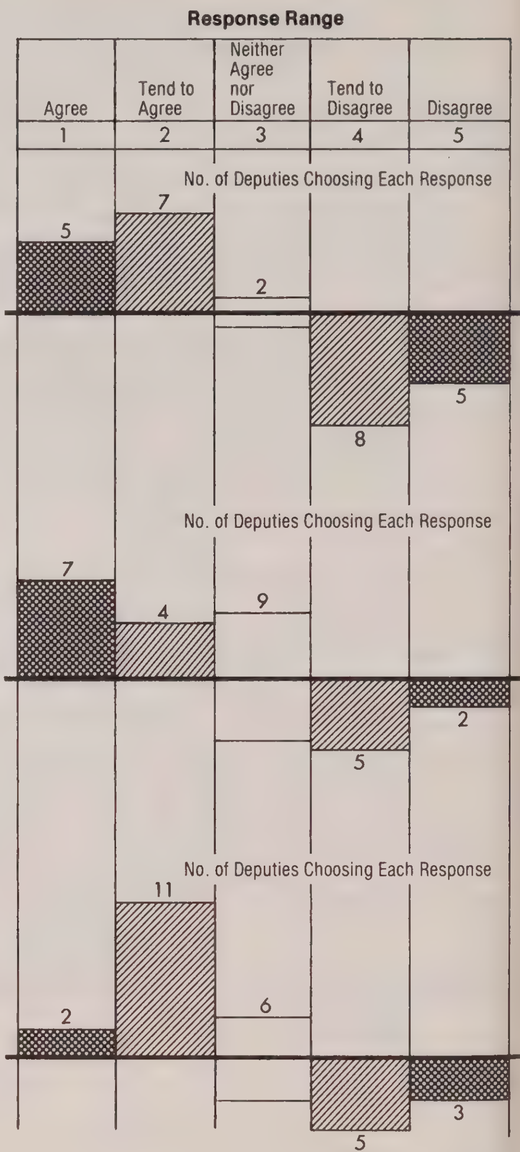
A majority of deputy heads did not believe that they would have difficulty in dealing with political pressure if they were to be given authority to appoint senior officers (B-51).

The vast majority of deputy heads believed that SX performance was over-rated and that merit was not properly reflected in pay increases (B-41, 42).

Central Planning and Resource Allocation

Deputies' perceptions of central planning and resource allocation suggested several areas for concern. Most deputies responded that they received adequate direction concerning policies and priorities; however, a significant minority reported the opposite. While deputies suggested that the objectives set by them were generally understood by the Treasury Board Secretariat, they agreed that arbitrary handling of Program Forecasts by the Treasury Board Secretariat undermined their efforts to establish good planning practices in departments.

Responses on the Expenditure Planning Process



Half of the deputies indicated that "The program forecast is not a good vehicle for our planning and priority setting"

B-68

A number disagreed with the statement "Good planning has helped to get the program forecasts and estimates smoothly through TBS"

B-69

And the majority agreed that "Arbitrary handling of our program forecast by TBS undermines our efforts to build good planning into the department"

B-82

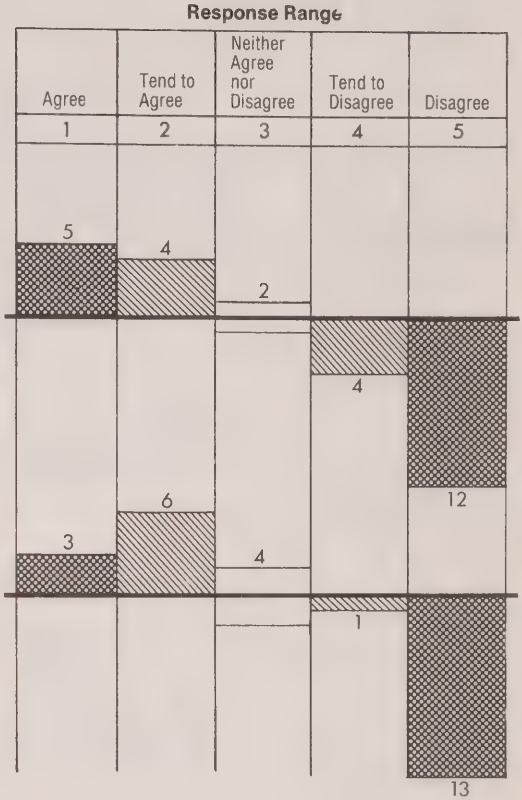
Responses on Performance Evaluation

Most DMs disagreed with the statement "I was told what was expected of me when I was appointed to this job"

B-28

Only 8 DMs agreed with the statement "The central agencies and I have discussed the administrative improvements required in my department"

B-8



A clear majority of deputies did not agree that the Treasury Board Secretariat recognized deputy heads' efforts to run cost-effective operations in its handling of departmental budget submissions. Most agreed that incremental budgeting does not encourage deputy ministers to reduce costs.

Evaluation of Deputy Head Administrative Performance

The responses of deputies pointed to some major problems with respect to the evaluation of their performance. Deputies indicated that communication with them about their performance was ineffective. Few deputies were sure that evaluations of their performance were fair. Many did not believe that the Committee of Senior Officials on Executive Personnel (COSO) or the Treasury Board Secretariat could effectively evaluate administrative performance.

Responses to the statement "My overall performance as a deputy head has been fairly evaluated" were divided

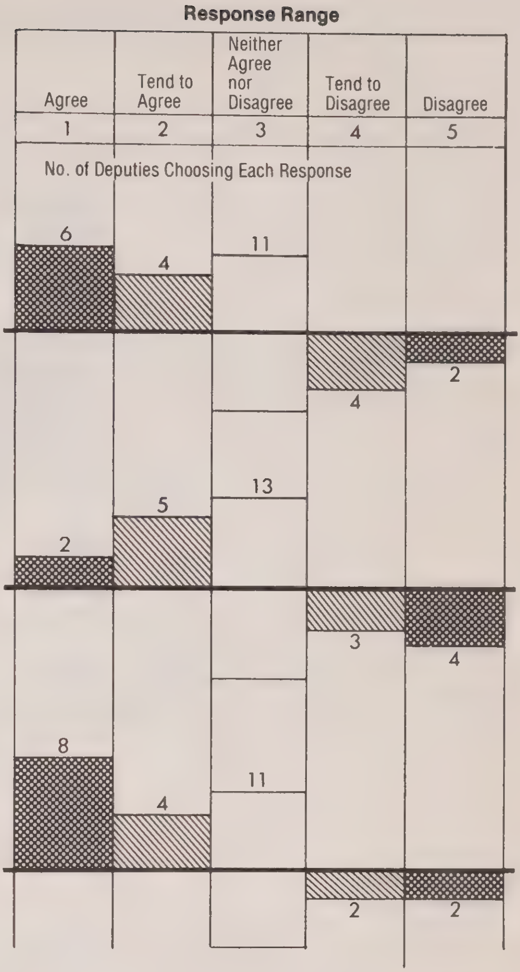
B-5

Similarly, deputies were evenly divided in their reaction to the statement "My administrative performance was given enough consideration in evaluating my overall performance"

B-9

Twelve deputies indicated agreement with the statement "My contributions to policy making have been properly recognized in my overall evaluation"

B-12



Responses on the Capability of COSO and TBS to Evaluate Administrative Performance

Deputies were almost evenly split in their reactions to the statement "COSO is an acceptable vehicle for evaluating my administrative performance"

B-1

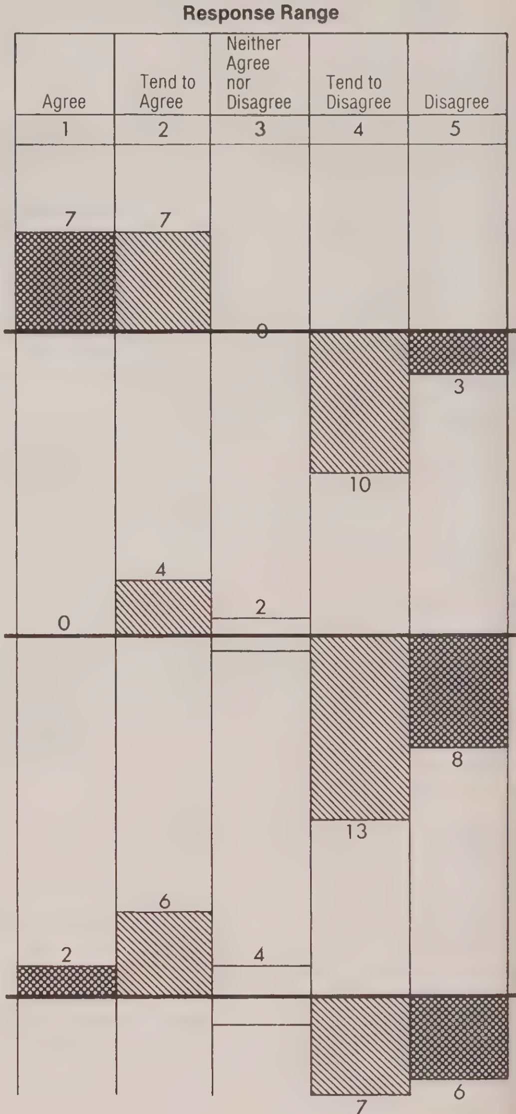
Almost all deputies do not believe that "The members of COSO are well aware of the performance goals of my department"

B-2

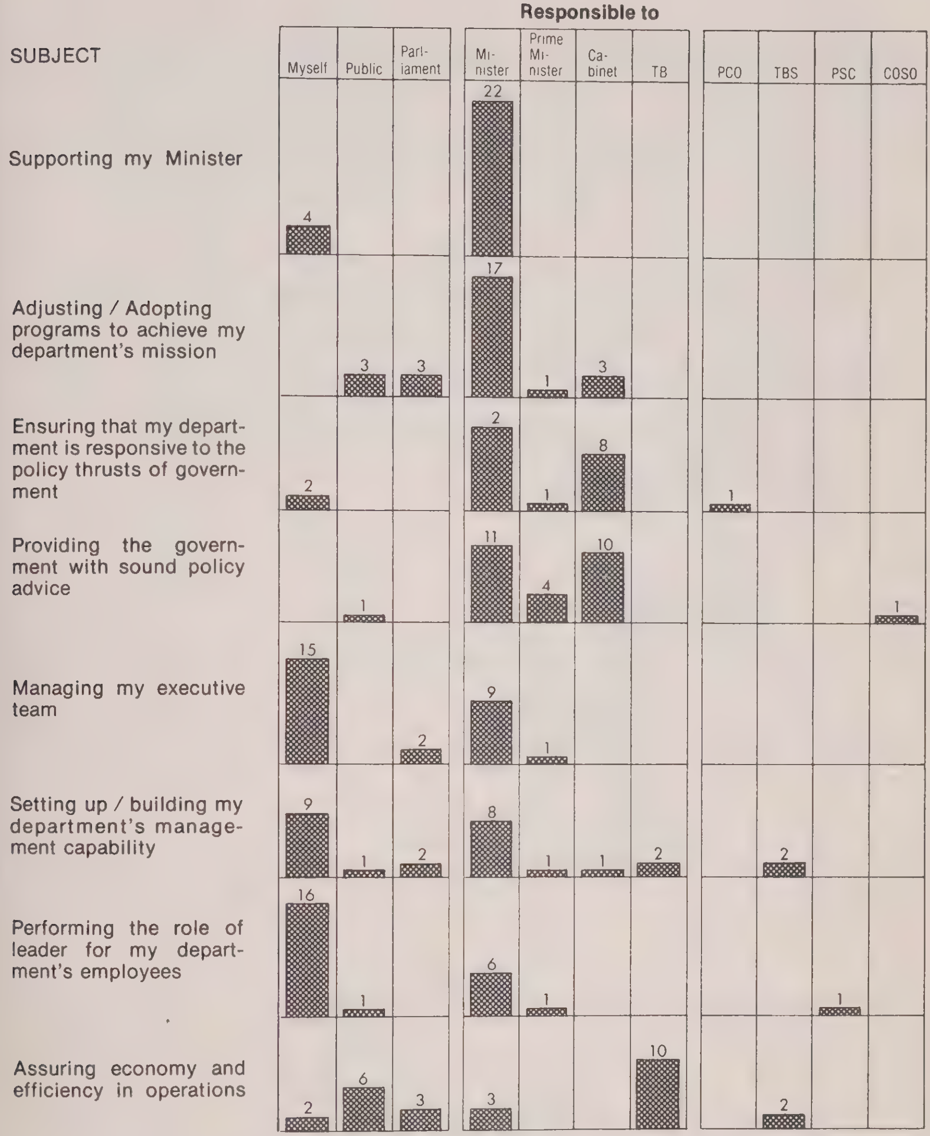
The 4 deputies who agreed with this statement were among those appointed from within the public service

The majority of deputies did not agree with the statement "The TBS has a good knowledge of my administrative performance"

B-3



Indications of persons and organizations to whom deputies consider themselves responsible for specific subjects



No. of Deputies Choosing each Response Category (Question D-2)

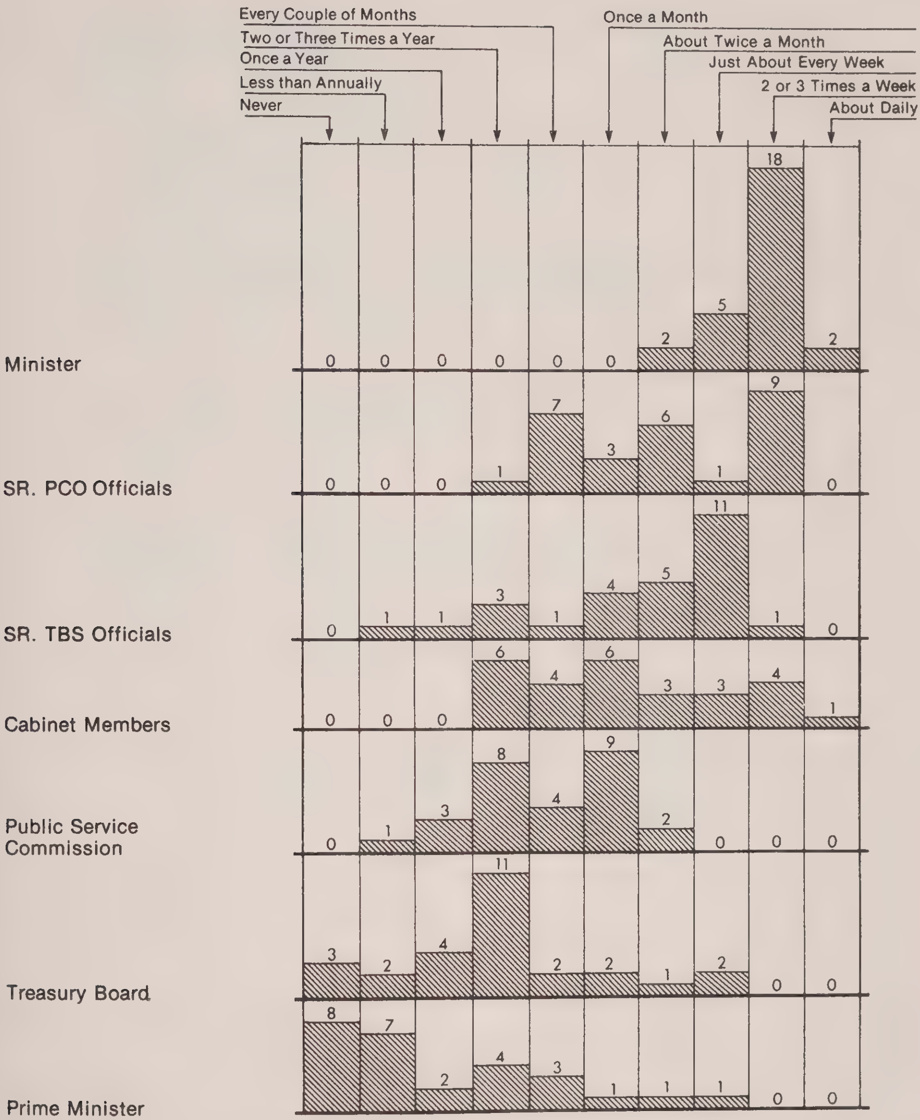
Relationship Between the Minister and the Deputy Head

Deputies indicated that they met with their ministers far more frequently than with any other person to whom they might be considered accountable (C-2). The majority of deputies supported the concept of ministerial responsibility for departmental performance (B-96) and almost all agreed that meetings with their ministers dealt primarily with the most important issues in the department (B-76). Most deputies indicated that they accounted for the administration of their departments in meetings with their ministers (B-92).

Most deputies indicated a belief that ministers have a good understanding of their administrative performance (B-4). At the same time, few thought that this was true of the Treasury Board Secretariat (B-3); this latter group did not support the concept of ministerial responsibility for departmental performance (B-96).

Responses showed confusion about respect to whom the deputy head should be accountable.

A deputy meets far more frequently with his minister than any other official to whom he may be considered responsible



No. of Deputies Choosing each Response Category

Frequency of Meetings

AGGREGATE RESPONSES TO THE DEPUTY HEAD QUESTIONNAIRE

A. BACKGROUND INFORMATION

Please choose the appropriate response and circle the number associated with it for the following questions.

1. How many people work in your department?

0-2,000	6
2,001-10,000	12
Over 10,000	9

2. Does your department have an Associate Deputy Minister, Senior Assistant Deputy Minister, or equivalent?

Yes	12
No	15

3. If you answered No to question 2, do you plan to have an Associate DM, Senior ADM, or equivalent in the near future?

Yes	1
No	14

4. Did you enter the senior ranks of the Federal Government from outside the federal public service?

Yes	9
No	18

	Mostly Policy	More Policy Than Operations	Evenly Split Between Policy & Operations	More Operations Than Policy	Mostly Operations
5. What is the orientation of your department?	3	4	8	7	5

	Well Above Average	Above Average	Average	Below Average	Well Below Average
6. How does the policy load on your department compare with other departments?	2	13	6	4	2

	Well Above Average	Above Average	Average	Below Average	Well Below Average
7. How does the scope and complexity of operations in your department compare with other departments?	9	10	4	3	1

B. PERFORMANCE

> For each of the following 97 statements, please circle 1 if you agree with the statement, 2 if you tend to agree, 3 if you neither agree nor disagree, 4 if you tend to disagree, or 5 if you disagree with the statement.

Statements About DM Evaluations	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
1. COSO is an acceptable vehicle for evaluating my administrative performance	7	7	0	10	3	0
2. The members of COSO are well aware of the performance goals of my department	0	4	2	13	8	0
3. The Treasury Board Secretariat has a good knowledge of my administrative performance	2	6	5	7	6	1
4. My Minister has a good understanding of my administrative performance	6	11	4	4	2	0
5. My overall performance as a deputy head has been evaluated fairly	6	4	11	4	2	0
6. I understand the basis on which my performance is evaluated	5	4	1	6	11	0

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
7. I know what my performance evaluation is for the last year	11	1	1	4	10	0
8. The central agencies and I have discussed the administrative improvements required in my department	3	6	4	1	13	0
9. My administrative performance was given enough consideration in evaluating my overall performance	2	5	13	3	4	0
10. Controlling costs should be an important factor in my overall evaluation	16	7	2	1	1	0
11. In evaluating my performance, my policy contributions should be given more weight than my administrative management	4	7	5	6	5	0
12. My contributions to policy making have been properly recognized in my overall evaluation	8	4	11	2	2	0
13. My job has been correctly classified	16	4	2	5	0	0
14. Given AIB, I was satisfied with the amount of my last pay increase	13	3	1	5	5	0
15. TB does not hold me accountable for the use of delegated authority	1	4	5	9	8	0
16. PSC does not hold me accountable for the use of delegated authority	2	2	4	10	9	0

*Not Stated

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
Statements Concerning DM Appointments						
17. I think I would be more effective in a different DM post from the one I now hold	0	1	1	6	19	0
18. DM career success is based more on who you know, rather than what you do	0	4	3	9	11	0
19. In DM appointments, policy skills are valued more highly than administrative skills	9	9	6	3	0	0
20. Administrative skills are given sufficient consideration in making DM appointments	1	7	3	9	7	0
21. On balance, the better deputy heads are recognized and move ahead in the system	5	17	4	0	1	0
22. Deputies not performing satisfactorily are dealt with effectively	1	3	8	8	7	0
23. The satisfactions of the DM position are well worth the personal investment required	7	9	0	8	3	0
24. Deputies change departments too frequently	7	7	5	5	3	0
25. A good deputy who wears out early because of job pressure is treated well	2	9	8	5	3	0
26. I would like to be reassigned in the next 12 months	3	2	3	4	15	0
27. I was satisfactorily consulted about appointment to my present position prior to the final decision	14	5	3	1	4	0

*Not Stated

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
28. When I was appointed to this job, I was told what was expected of me	5	4	2	4	12	0
29. Senior management experience is more important to DM success than knowledge of government administrative procedures	11	8	3	3	1	1
30. The DM position is not very politicized	5	12	2	6	2	0
31. Most deputies could faithfully serve a government formed by another political party	19	7	0	1	0	0
Statements About The Departmental Management Team						
32. I review important senior personnel decisions with the Minister before I take action	14	4	1	4	4	0
33. Ministers should be consulted in staffing important positions	12	4	2	5	4	0
34. There should be better central career path planning for SXs	15	5	3	4	0	0
35. I would be willing to give up some of my appointment power so that the central agencies could implement career plans for SXs	5	5	3	5	9	0
36. I would give up some of my appointment power, in an appointment-to-level process, to gain more freedom to deploy my management team	9	7	4	2	5	0

*Not Stated

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
37. Senior personnel officers are more interested in central agency requirements than in my human resource problems	1	2	5	10	7	2
38. PSC has developed good management training programs	0	5	9	8	5	0
39. I have a responsibility to accept my share of low performers	5	5	4	5	8	0
40. Personnel systems and practices have fostered the overrating of SX performance	6	11	3	3	4	0
41. SX performance can be accurately evaluated	8	11	2	6	0	0
42. Merit is properly reflected in pay increases	0	6	2	11	8	0
43. I am evaluated on my ability to develop good managers for employment elsewhere in the government	1	4	7	6	9	0
44. One of the biggest challenges facing government is dealing with unsatisfactory performers in the public service	7	10	2	7	1	0
45. I have adequate authority to hire my management team	3	17	0	3	4	0
46. I have adequate authority to get rid of unsatisfactory members of my management team	1	8	0	11	7	0
47. When authority is delegated in my department, it carries clearly defined objectives	3	12	4	6	2	0

* Not Stated

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
48. I can adequately review the use of delegated authority by my subordinates	5	14	2	4	2	0
49. I have been given enough flexibility to deploy my managers in the most effective way	4	12	0	7	4	0
50. TBS has developed good financial officers for my department	0	3	7	5	12	0
51. If DMs were delegated authority for senior staffing, it would be difficult to withstand political pressures in making appointments	2	7	1	8	9	0
52. PSC does a good job in staffing	1	9	7	6	4	0
53. One of my biggest management problems is dealing with deadwood in my department	1	12	3	9	2	0
54. I need new options to deal with performance problems of executives in my department	6	16	1	2	2	0
Statements About Departmental Objectives						
55. I have enough flexibility to allocate the financial resources given to my department	5	11	2	4	5	0
56. Incremental budgeting does not encourage DMs to reduce costs	6	9	4	4	4	0
57. Relative to other departments, my budgetary allotment is fair	5	12	5	4	1	0

* Not Stated

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
58. TBS budgeting process properly recognizes my efforts to run a cost-effective operation	1	3	7	8	8	0
59. TBS Program Branch understands our resource requirements	1	8	6	9	3	0
60. TBS Program Branch understands my department's objectives	1	14	3	7	1	1
61. My department is given resources that are consistent with the performance that the government expects	2	11	6	7	1	0
62. I receive adequate policy direction	4	13	1	7	2	0
63. I am kept well informed about the government's priorities	7	11	0	6	3	0
64. My knowledge of government priorities comes mainly from my Minister	2	3	3	12	7	0
65. My Minister fully understands our estimates submission	0	11	2	9	5	0
66. I have developed a set of clear objectives for my department	11	13	1	2	0	0
67. The government has conflicting objectives for my department	6	9	7	4	1	0
68. The program forecast is a good vehicle for our planning and priority setting	5	7	2	8	5	0

*Not Stated

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
69. Good planning has helped us to get our program forecasts and estimates smoothly through TBS	7	4	9	5	2	0
Statements About Departmental Administration						
70. I am able to keep pretty well to the management priorities I set	10	14	2	1	0	0
71. TBS is sensitive to departmental management requirements in carrying out its responsibilities under the FAA	0	10	6	10	1	0
72. My minister understands the management process of the department	6	6	3	6	6	0
73. My minister has clear knowledge of my delegated authorities under the FAA and PSEA	2	6	2	8	9	0
74. My minister and I understand our separate roles	8	12	4	2	1	0
75. Changing ministers is disruptive to departmental administration	7	6	3	4	7	0
76. My meetings with the Minister deal primarily with the most important issues of the department	13	8	2	3	1	0
77. PSC delegated staffing procedures adequately meet my department's needs	1	12	4	9	1	0
78. TBS personnel systems frustrate my efforts to manage the department	6	8	5	6	2	0
79. My department is overstaffed	2	4	2	8	11	0

* Not Stated

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
80. My minister has a role in the administration of the department	5	4	4	3	11	0
81. I am held to account for administration in appearances before House Committees	7	6	5	4	5	0
82. Arbitrary handling of our program forecast by TBS undermines my efforts to build good planning into the department	2	11	6	5	3	0
83. Departmental financial officers are important participants in program/policy development	14	11	0	2	0	0
84. I feel personally responsible for ensuring we have good financial controls	21	6	0	0	0	0
85. The centrally determined budgeting and financial reporting systems are helpful management tools	7	8	5	5	2	0
86. Inadequate financial control is a major concern of departments	3	11	6	6	1	0
87. TBS effectively consults with me prior to negotiating collective agreements	1	2	3	6	14	1
88. TBS administrative directives interfere with management	3	11	6	6	1	0
89. PSC staffing audits are useful to me	6	10	5	5	1	0
90. The Auditor General's reports on my department are useful	7	12	1	6	1	0

*Not Stated

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/S*
91. House Committees should be able to hold me to account for departmental administration	10	13	0	3	1	0
92. I account for the administration of the department in meetings with my minister	12	8	3	2	2	0
93. Protecting my minister from criticism is a priority in departmental administration	8	13	5	1	0	0
94. Jurisdictional overlaps with other departments seldom cause problems	7	6	1	3	10	0
95. I am given early warning of possible significant variances from budget	16	6	1	2	2	0
96. I support the concept of ministerial responsibility for departmental performance	9	7	3	7	1	0
97. Question period keeps us sensitive to our departmental responsibilities	10	11	3	0	3	0

*Not Stated

C. PATTERNS OF INFLUENCE

1. Degree of Influence

Below are 18 officials or bodies with varying degrees of influence on your department. Please estimate the degree of influence each possible source has on your department, by circling one score under policy influence and one score under managerial influence.

Source	Influence on Departmental and Program Policy (Excluding Administrative Policy)						Influence on the Managing of the Department (Including Administrative Policy)					
	N/S*	None	Some	Mode-rate	Great	Very Great	None	Some	Mode-rate	Great	Very Great	N/S*
1. Prime Minister	0	1	4	9	5	8	14	11	1	0	0	1
2. Cabinet	0	1	1	6	9	10	7	14	5	0	0	1
3. Senior PCO officials	1	1	7	8	10	0	7	17	1	1	0	1
4. Political staff of PM	1	14	6	3	3	0	21	5	0	0	0	1
5. Treasury Board	0	3	8	6	8	2	0	7	8	9	2	1
6. Senior TBS Officials	0	6	6	10	4	1	1	6	11	8	0	1
7. TBS Program Branch	1	6	7	10	2	1	1	9	11	4	0	2
8. TBS Personnel Policy Branch	0	13	9	5	0	0	2	6	13	4	1	1
9. TBS Financial Admin. Branch	1	12	9	5	0	0	0	9	13	2	1	2
10. TBS Admin. Policy Branch	0	14	9	3	0	1	0	7	14	4	0	2
11. PSC	0	18	9	0	0	0	0	11	12	2	0	2
12. Department of Finance	0	3	5	11	5	3	17	5	3	0	0	2

13. Other Departments	0	2	10	10	3	2	10	11	3	0	1	2
14. Your Minister	0	0	1	4	9	13	2	13	10	1	0	1
15. Your Minister's staff	0	12	10	5	0	0	18	7	1	0	0	1
16. DM – Yourself	0	0	0	3	13	11	0	0	2	14	10	1
17. Your Associate DM, or Senior ADM, or equivalent	7	4	1	3	8	4	3	2	5	5	5	7
18. Public Service employee unions	1	17	7	1	1	0	3	14	8	1	0	1

*Not Stated

2. Frequency of Contact

Please estimate the frequency of individual work-related verbal communication (either face-to-face or over the telephone) that you have with each of the following contacts, by circling the appropriate score.

Contact	Frequency										
	Never	Less than annually	Once a year	2 or 3 times a year	Every couple of months	Once a month	About twice a month	Just about every week	2 or 3 times a week	About daily	Not Stated
1. Prime Minister	8	7	2	4	3	1	1	1	0	0	0
2. Cabinet Members	0	0	0	6	4	6	3	3	4	1	0
3. Senior PCO officials	0	0	0	1	7	3	6	1	9	0	0
4. Political staff of PM	4	6	2	4	4	2	4	1	0	0	0
5. Treasury Board	3	2	4	11	2	2	1	2	0	0	0
6. Senior TBS officials	0	1	1	3	1	4	5	11	1	0	0
7. TBS Program Branch	1	1	4	2	4	4	3	5	3	0	0
8. TBS Personnel Policy Branch	2	4	2	9	7	2	0	1	0	0	0
9. TBS Financial Admin. Branch	2	3	5	13	3	1	0	0	0	0	0
10. TBS Admin. Policy Branch	3	5	4	7	3	4	0	1	0	0	0
11. PSC	0	1	3	8	4	9	2	0	0	0	0
12. Department of Finance	3	2	1	3	6	3	2	4	2	1	0
13. Other Departments	0	0	0	1	1	5	6	4	3	7	0
14. Your Minister	0	0	0	0	0	0	2	5	18	2	0
15. Your Minister's staff	0	0	0	0	0	0	1	7	11	8	0
16. Your Associate DM, Senior ADM, or equivalent	2	0	0	0	0	0	0	0	6	13	6
17. Senior officials of Public Service employee unions	1	7	5	3	8	1	2	0	0	0	0

D. RESPONSIBILITIES

1. Please select the five most important of your responsibilities from the 16 statements listed below. Then rank the five by putting a 1 beside the most important responsibility, a 2 beside the second most important, a 3 beside the third most important, a 4 beside the fourth most important, and a 5 beside the fifth most important, under the column heading "My Selection and Ranking of the Top 5". Please give us your view of how others would rank your responsibilities by repeating the ranking process under each column heading.

Responsibility	My selection and ranking of the top 5	My guess at the selection and ranking that would be made by:		
		My Minister	TBS	PCO
1. Adjusting/adopting programs to achieve my department's mission	14	14	13	16
2. Assuring economy and efficiency in operations	20	19	27	14
3. Contributing to the improvement of government-wide administration	3	4	11	6
4. Ensuring that my department is responsive to the policy thrusts of the government	18	23	15	26
5. Exercising adjudication/regulation authority assigned directly to me by statute (other than Interpretation Act, FAA, PSEA)	1	1	3	1
6. Following centrally developed administrative policies	0	0	16	3
7. Managing my executive team	21	9	11	7
8. Monitoring policy in Crown agencies and corporations in the portfolio	1	2	0	3
9. Performing the role of leader for my department's employees	8	5	6	5
10. Protecting the integrity of my department from inappropriate political action	1	0	1	3
11. Providing a communications program for the department's external publics	1	7	1	5
12. Providing the government with sound policy advice	16	16	6	16
13. Setting up/building my department's management capability	11	7	10	4
14. Supporting my minister	17	24	8	17
15. Undertaking intergovernmental negotiations	1	3	0	3
16. Upholding the FAA and PSEA	2	0	7	1

2. Please indicate to whom you think you are most responsible by circling *one response only*, for each of the 16 responsibility statements.

	Responsible To:												
Responsible For:	The Public	Parliament	PM	Minister	Cabinet	PCO	TB	TBS	PSC	COSO	Myself (personally)	Not A Responsibility	Not Stated
1. Adjusting/adopting programs to achieve my department's mission	3	3	1	17	3	0	0	0	0	0	0	0	0
2. Assuring economy and efficiency in operations	6	3	0	3	0	0	10	2	0	0	2	0	1
3. Contributing to the improvement of government-wide administration	4	2	2	2	2	1	7	4	0	0	3	0	0
4. Ensuring that my department is responsive to the policy thrusts of the government	0	0	4	12	8	1	0	0	0	0	2	0	0
5. Exercising adjudication/regulation authority assigned directly to me by statute (other than Interpretation Act, FAA, PSEA)	0	5	0	7	1	0	2	3	0	0	1	8	0
6. Following centrally developed administrative policies	0	0	0	1	0	0	17	7	1	0	1	0	0
7. Managing my executive team	0	2	1	9	0	0	0	0	0	0	15	0	0
8. Monitoring policy in Crown agencies and corporations in the portfolio	0	0	0	12	0	0	0	0	0	0	0	11	4

9. Performing the role of leader for my department's employees	1	0	1	6	0	0	0	0	1	0	18	0	0
10. Protecting the integrity of my department from inappropriate political action	7	4	2	5	2	0	0	0	1	0	6	0	0
11. Providing a communications program for the department's external publics	8	2	0	17	0	0	0	0	0	0	0	0	0
12. Providing the government with sound policy advice	1	0	4	11	10	0	0	0	0	1	0	0	0
13. Setting up/building my department's management capability	1	2	1	8	1	0	2	2	0	0	9	0	1
14. Supporting my minister	0	0	0	22	0	0	0	0	0	0	4	0	1
15. Undertaking intergovernmental negotiations	0	0	1	12	8	2	0	0	0	0	0	4	0
16. Upholding the FAA and PSEA	1	6	0	2	1	0	11	5	4	0	1	0	0

The deputy heads of the following departments and branches designated as departments received the Deputy Head Questionnaire:

- Agriculture
- Consumer and Corporate Affairs
- Employment and Immigration
- Energy, Mines and Resources
- Environment
- External Affairs
- Finance
- Indian and Northern Affairs
- Industry, Trade and Commerce
- Justice
- Labour
- National Defence
- National Health and Welfare
- National Revenue (Taxation)
- National Revenue (Customs and Excise)
- Post Office
- Public Works
- Regional Economic Expansion
- Supply and Services
  - Supply Administration
  - Services Administration
- Secretary of State
- Transport
- Veterans' Affairs
- Ministry of State for Science and Technology
- Ministry of State for Urban Affairs
- Canadian International Development Agency
- Statistics Canada

APPENDIX C

THE CROWN AGENCY HEAD QUESTIONNAIRE

The Crown Agency Head Questionnaire was designed by consultants to the Commission to elicit the perceptions of Crown agency heads in the following areas:

- the appointment and evaluation of Crown agency heads
- job satisfaction among Crown agency heads
- the roles and responsibilities of Crown agency heads and the roles and responsibilities of their boards
- the existing system within which agency heads work, including the constraints and advantages with respect to the efficient and effective performance of the agency's tasks
- recently proposed changes to this system

The Questionnaire was sent to the chief executive officers of 65 representative Crown agencies selected from the Schedules to the Financial Administration Act, the list of government-owned corporations revised by Treasury Board Secretariat in January 1978, and the list of "Branches Designated as Departments" pursuant to Section 2 of the FAA. Forty-six agency heads returned the completed Questionnaire. The responses were processed by computer and analyzed under the following headings:

- The Respondents and Their Agencies
- The Agency Head Appointment Process
- The Agency Head's Responsibilities, Contacts, and Evaluation
- The Roles and Performance of the Board of Directors

- The Policy Relationships of Parliament, Government, and Crown Agencies
- The Management Relationships of Parliament, Government, and Crown Agencies

It was inevitable that the findings of the Crown Agency Head Questionnaire should lack the precision and clarity of the results of the Deputy Head Questionnaire (see Appendix B). Where conventional departments have a somewhat common form and similar kinds of tasks, Crown agencies have a number of forms, perform a variety of tasks, and have varying relationships with Parliament and Government. These variations should be kept in mind when considering the views of Crown agency heads presented here.

This Appendix contains the findings and analysis of the Questionnaire accompanied by charts to aid in clarifying the patterns of responses which emerged. The full Questionnaire with a tabulation of aggregated responses completes the Appendix.

Findings and Analysis

When asked to identify the reason for the special status of their agencies, the chief executive officers indicated several important considerations. Sixty-three percent responded that the major reason for special status for Crown agencies was to allow for impartial administration and decision-making, while 50% responded that special status was conferred to "provide a buffer" from political influence.

A majority of chief executive officers perceived their agency's tasks as more closely paralleling those undertaken in the private sector rather than in government. In addition, just less than half of the respondents perceived their agencies as being partially or fully in competition with private sector organizations.

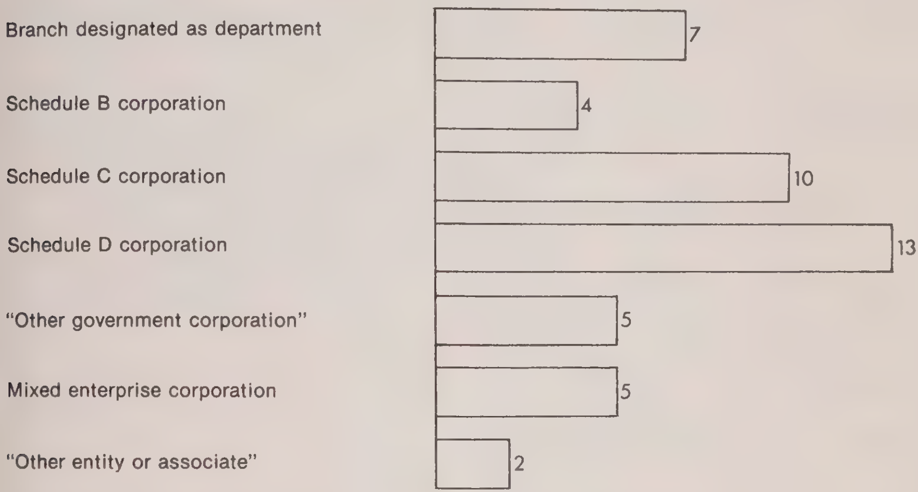
Most of the respondents entered the senior ranks of Crown agency management from positions outside their own or any other Crown agency, with the greatest percentage coming from the private sector. Those who came from the federal public service were largely concentrated in "Branches Designated as Departments" and in Schedule B corporations. A substantial majority of those who came from the private sector were found in the Schedule D and mixed enterprise corporations.

Findings and Analysis

The Respondents and their Agencies (Questions A-1 to A-10*)

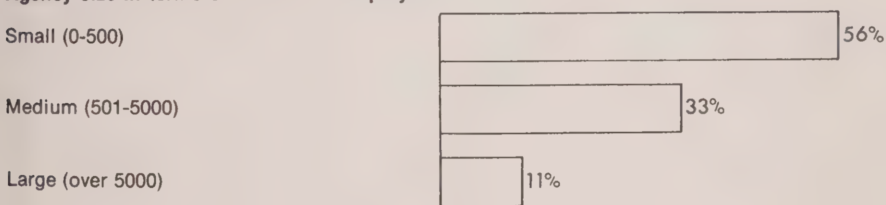
The chief executive officers who responded to the Questionnaire represented seven different categories of agencies.

TYPE OF AGENCY



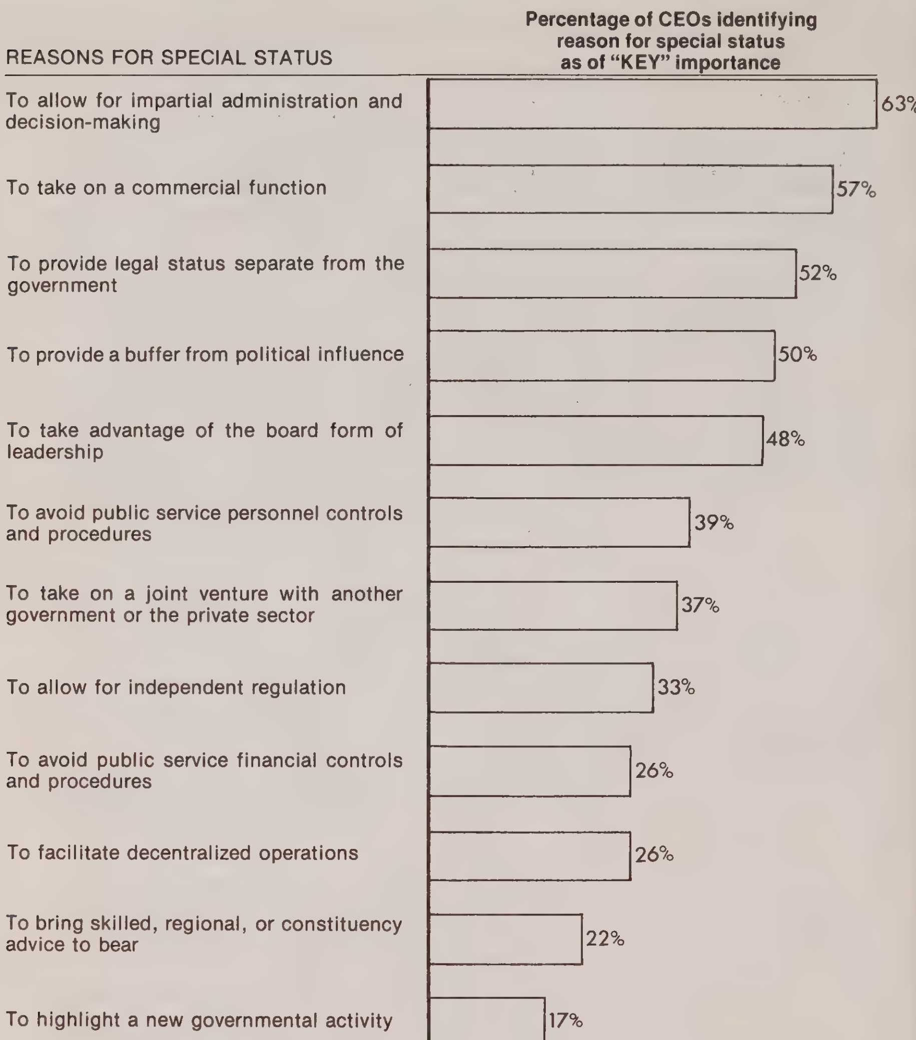
The respondents represented agencies which vary widely in size

Agency size in terms of number of employees



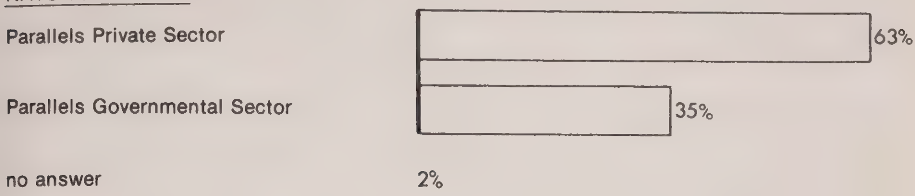
* Alpha-numeric symbols indicate sections and questions in the Questionnaire.

Responses concerning the reasons for special status for Crown agencies



Perceptions concerning the nature of the task of the agency and the degree of competition with the private sector

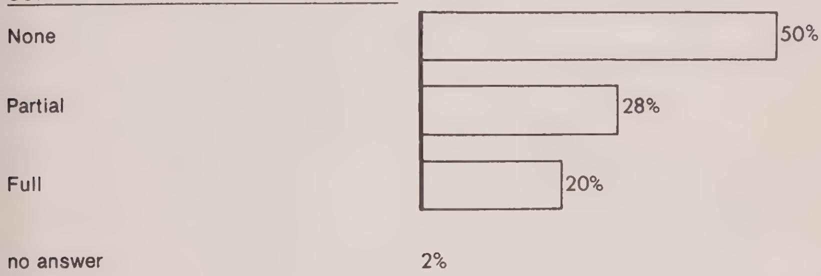
NATURE OF TASK



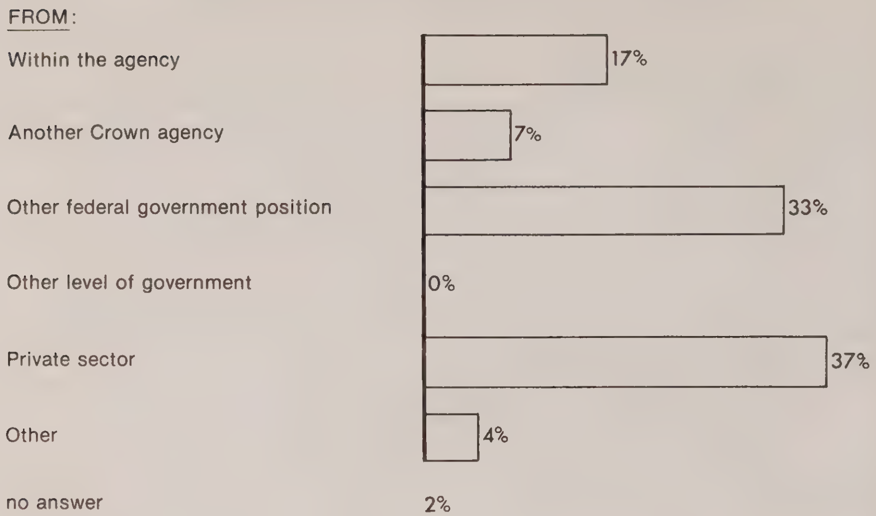
The 63% who identified with private sector tasks represent:

- 100% of the Mixed enterprises
- 92% of the Schedule D corporations
- 70% of the Schedule C corporations
- 60% of the "Other government corporations"
- 50% of the "Other entities and associates"

COMPETITION WITH PRIVATE SECTOR



Responses indicating the previous employment of agency heads



Almost half of the chief executive officers had spent less than three years in their present job and only one-third had spent more than five years.

Those who came from other federal government positions were largely concentrated in branches designated as departments and Schedule B corporations. A substantial majority of those who came from the private sector were found in the Schedule D and mixed enterprise corporations.

The Agency Head Appointment Process (B-11 to B-22)

Crown agency heads are appointed by the Governor in Council. Responses indicated that there does not appear to be a consistent appointment process, and the agency heads indicated a great deal of uncertainty about who was actually involved in their selection or how the process could be improved in terms of participation.

Only 50% of chief executive officers indicated that their boards had played a role in their selection and there was a strong view that boards did not have enough influence on appointments.

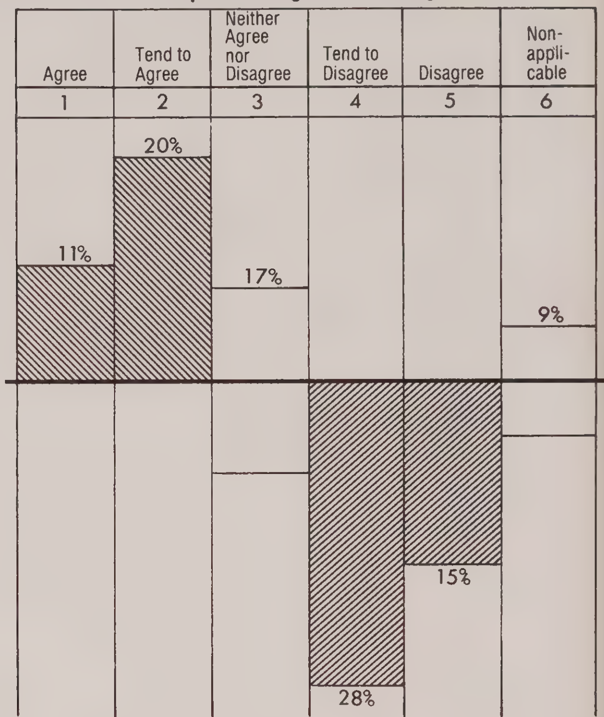
Fewer than one-third of the respondents agreed that "the existing appointment process for agency heads is satisfactory". Those who disagreed were concentrated in scheduled Crown corporations. Fifty percent of the chief executive officers in these agencies did not agree that the process of appointment was satisfactory. There was also more dissatisfaction among those agency heads who felt their agency's task was "private sector" in nature. Half of this group did not agree that the appointment process was satisfactory, as opposed to 37% of the group who saw their agency's task as being governmental in nature.

A large majority of respondents, 80%, were satisfied with the consultation and information provided before their appointments.

For the most part, the chief executive officers supported the view that the system of appointments was fair and based on merit. In addition there was general agreement concerning qualifications for appointment. A large majority agreed that senior management experience was more important to success than knowledge of governmental administrative procedures. Despite the almost unanimous perception of the importance of administrative skills, over one-quarter of the respondents did not agree that "administrative skills are given sufficient consideration in making agency head appointments".

Response concerning the general attitude toward the appointment process

Response Range in Percentage*



Less than one third agreed that "the existing appointment process for agency heads is satisfactory".

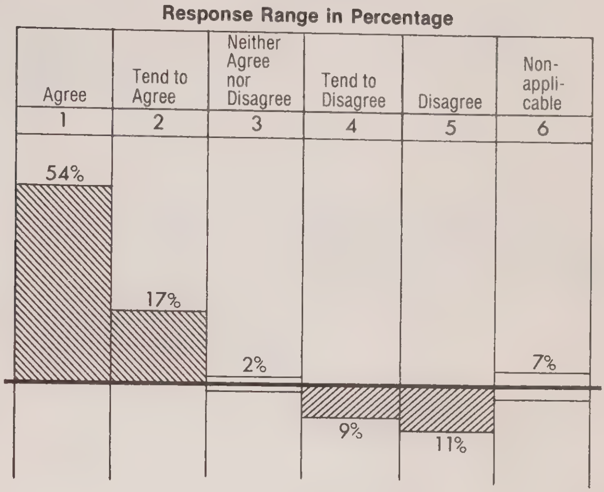
B-14

* Due to rounding off, all totals do not add to 100%.

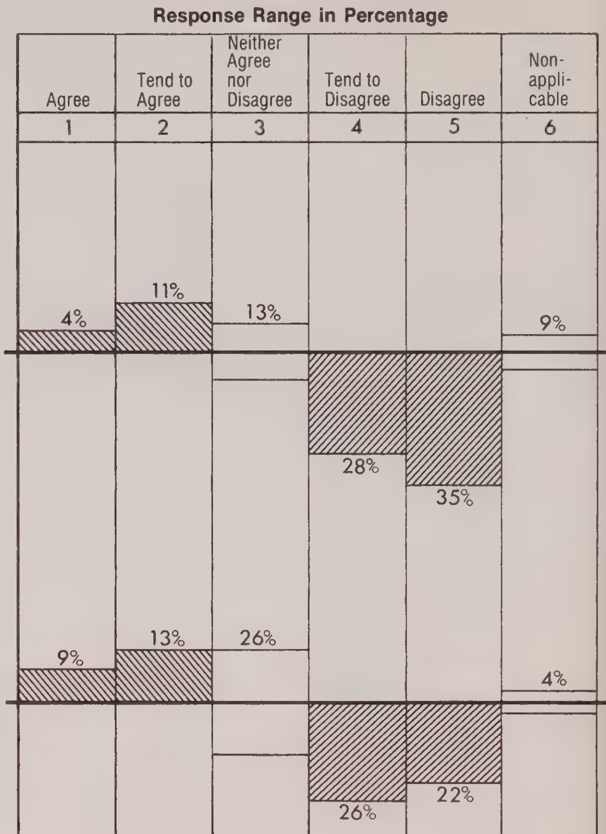
Responses concerning the consultation and information aspects of appointment

A large majority "was satisfied with the consultation process leading up to my appointment".

B-18



Responses indicating that chief executive officers believe that the system of appointment was fair and operated on merit



A majority disagreed that appointment "is based more on who you know rather than what you do".

B-12

Agreement was concentrated among the heads of Schedule C corporations where 1 / 3 of the respondents agreed. Agreement was also stronger among CEOs who see their agency's task as "governmental" in nature; 50% of these were in agreement or neutral as opposed to only 20% of the CEOs who saw their agency's task as "private sector".

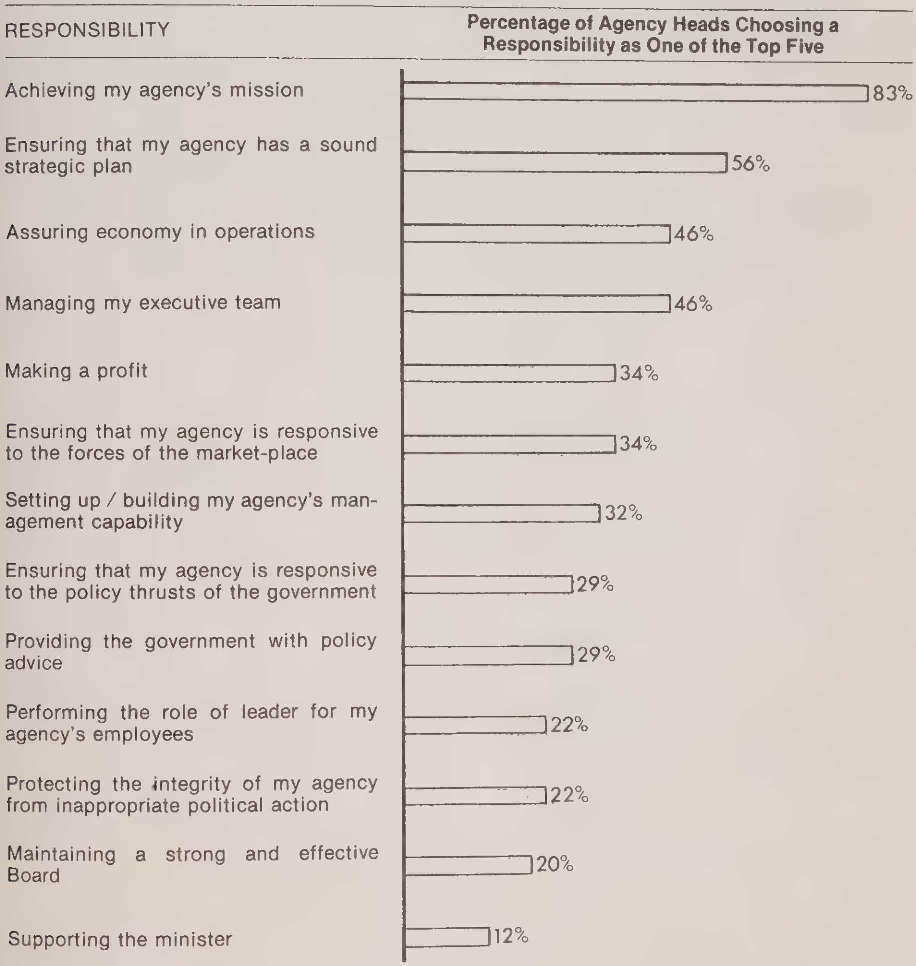
Slightly less than a majority disagreed that "the appointment process is too politicized". However, 26% neither agree nor disagree.

B-21

Again, Schedule C corporations was the major source of those agreeing or the uncertain. One third of the Schedule C respondents agreed, and another third were neutral.

The Agency Head's Responsibilities, Contacts, and Evaluation (C-23 to C-31, and Sections J, K, and L)

Chief executive officers were asked to rank their top five responsibilities as they perceived them. Eighty-three percent put "achieving my agency's mission" among the top five responsibilities; 12% chose "supporting the minister".



The chief executive officers felt little direct responsibility for performance to the Prime Minister, Cabinet, Privy Council Office, or the Department of Finance. On the whole, the responses indicated that chief executive officers felt more responsible to their boards than to any other group or person. There were, however, important exceptions. For example, more chief executive officers felt responsible to the public and to Parliament when they considered that their major role was "achieving my agency mission". Substantially more respondents felt direct responsibility to the designated minister than to the board for the performance of policy-oriented roles.

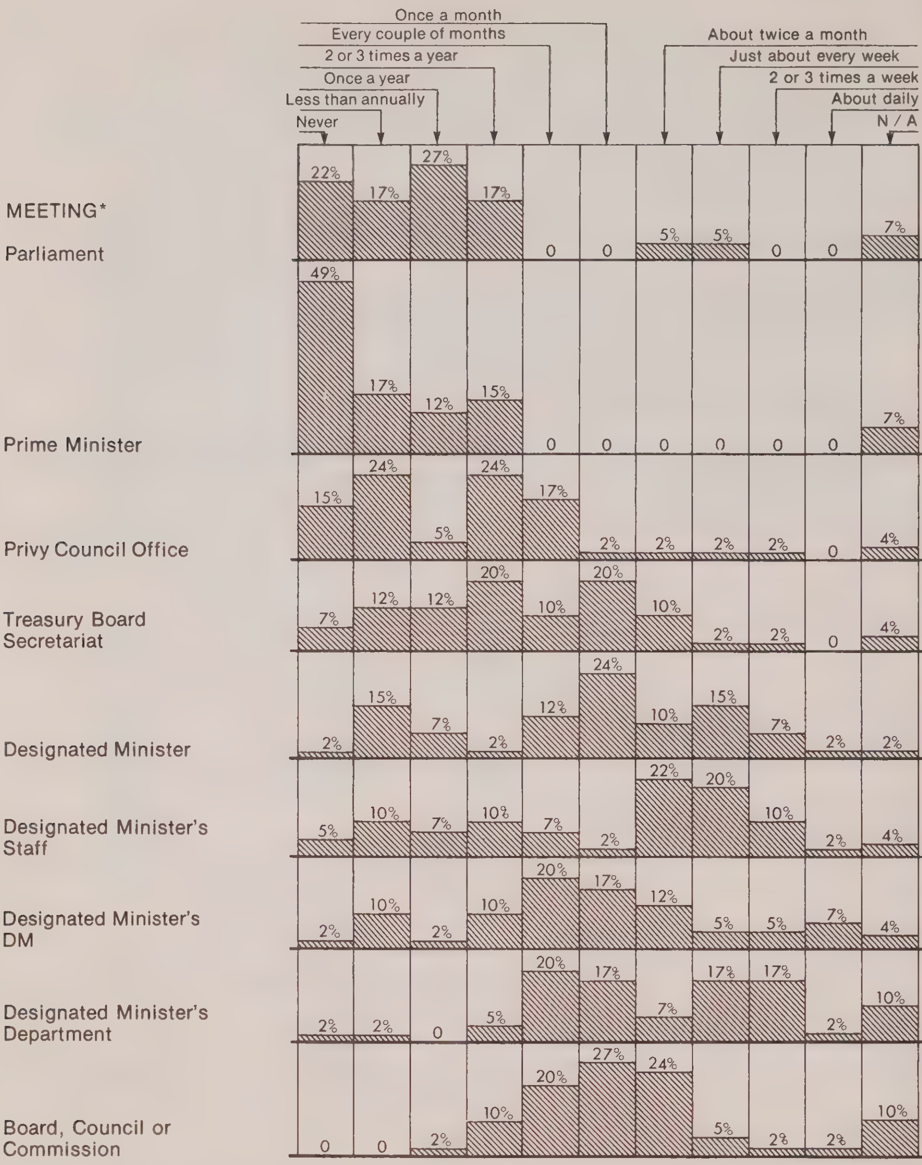
The chief executive officers indicated very little regular contact with the centre—the Prime Minister, Cabinet, Privy Council Office, Treasury Board, or Department of Finance. Twenty-two percent had never had any contact with Parliament. Overall, respondents indicated that they had more sustained contact with their designated minister's political staff and departmental officials than with any other group or individual.

Responses concerning groups and persons to whom agency heads consider themselves responsible

RESPONSIBLE FOR	The Public	Parliament	The Minister	TB Ministers	TBS	The Board	Myself
Achieving my agency's mission	32%	22%	15%	0	0	24%	0
Ensuring that my agency has a sound strategic plan	0	5%	27%	0	2%	56%	2%
Assuring economy in operations	17%	7%	5%	12%	5%	34%	7%
Managing my executive team	0	2%	7%	0	0	56%	24%
Making a profit	10%	0	2%	0	0	32%	5%
Ensuring that my agency is responsive to the forces of the marketplace	22%	0	10%	0	0	39%	2%
Setting up / building my agency's management capability	2%	2%	10%	0	2%	61%	10%
Ensuring that my agency is responsive to the policy thrusts of the government	2%	0	50%	2%	0	12%	0
Providing the government with policy advice*	0	0	54%	0	0	10%	0

* 7% felt responsible to Cabinet

Responses concerning frequency of meetings with individuals and groups



Percentage of Agency Heads Choosing Each Response Category

* The agency heads were also given an opportunity to comment on their frequency of contact with 10 other individuals and organizations. However, frequency of meetings in these cases was insignificant.

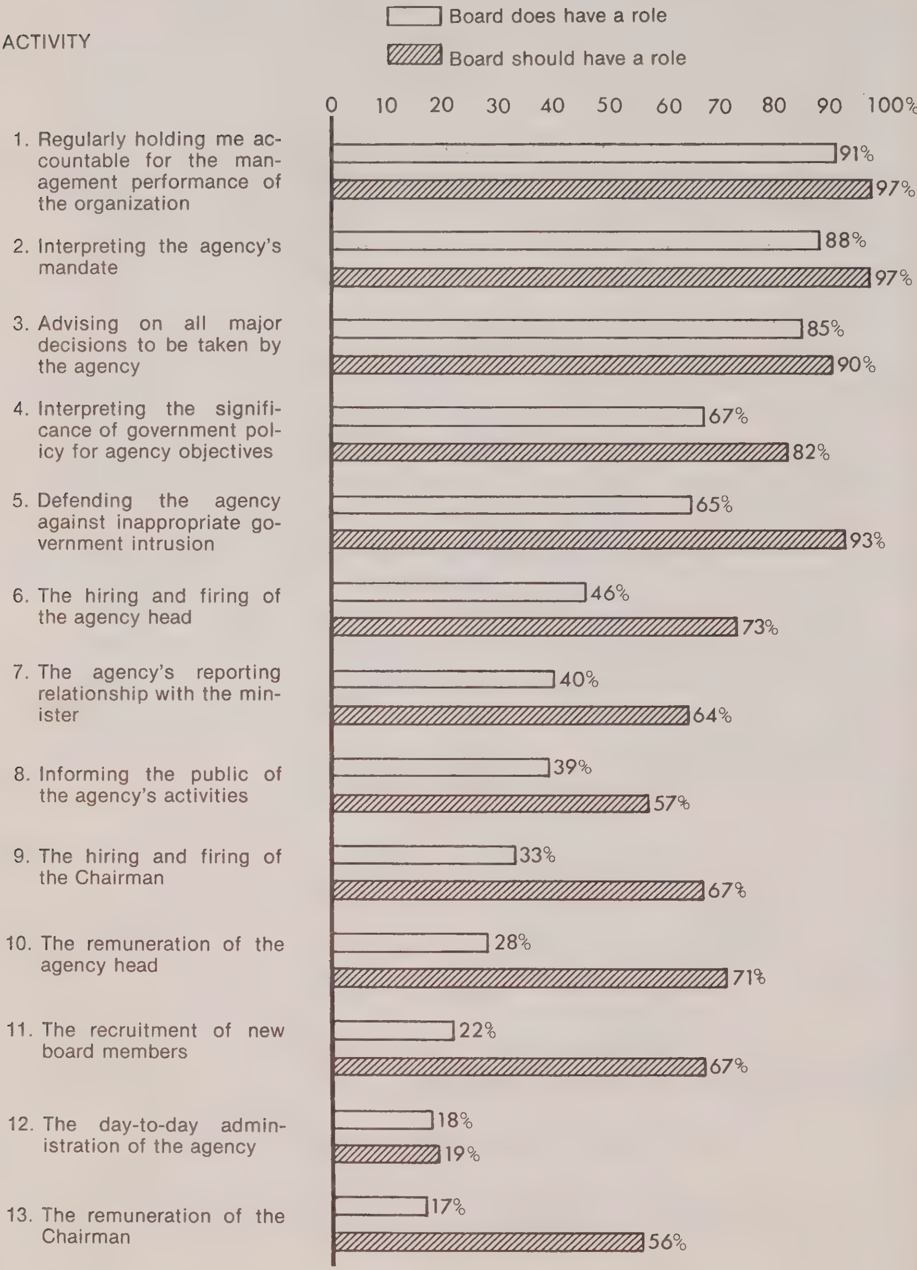
There is no common evaluation process for all Crown agency heads. There appeared to be confusion and uncertainty about the evaluation process. Of those who did respond, the general view was that the board, the designated minister, the Cabinet, and the Prime Minister should be more involved in the evaluation process than they were, and that the Privy Council office, COSO, and the deputy minister should be less involved. There were mixed views on the openness, fairness, and effectiveness of the evaluation process. Responses were divided on the statement "I know what my performance evaluation was for last year", but 36% of the respondents abstained from answering this question. More agreed than disagreed that "my overall performance as an agency head has been evaluated fairly".

The Role and Performance of the Board of Directors (D-32 to D-49)

Agency heads indicated that while boards played significant roles in a number of important areas, they should be playing more significant roles. It was also felt that the board should have a role as the liaison between government and the agency.

As seen in the following table, agency heads selected as the top five roles for a board an amalgam of private sector and governmental activities, with the latter predominating. They clearly felt that with respect to personnel matters the board should have greater powers to hire, fire, and decide upon remuneration levels for the agency head and the chairman. The following table summarizes their responses.

Responses concerning The Role and Performance of the Board of Directors



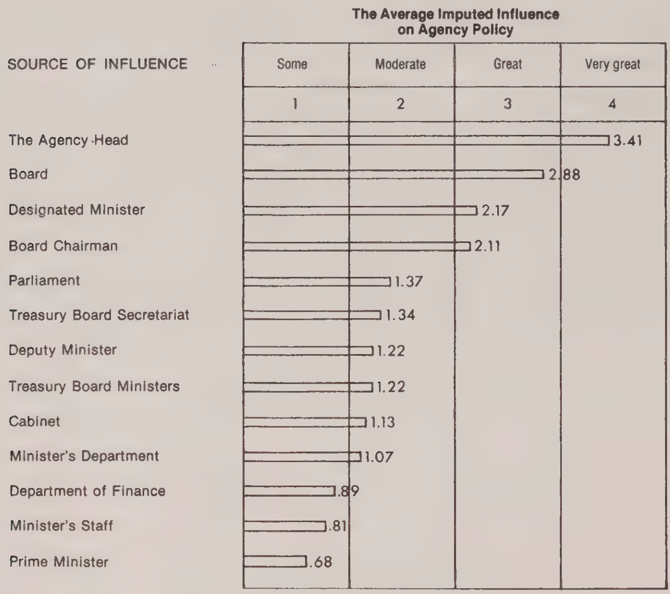
With respect to the role of the board in management, there was almost total agreement with the statement "I am given sufficient latitude by my board to do my job". A majority of the chief executive officers whose agencies have a board agreed that "the board is my most useful source of advice". Disagreement was concentrated in that group of agency heads who considered their agencies' tasks to be more "private sector" than governmental in character.

The usefulness of board committees was supported by a majority of respondents whose boards had committees. They agreed that "my board's committee system performs up to my expectations". Three-quarters of the agency heads agreed that "my board has sufficient competence to take on increased responsibilities".

There were divided views about the evaluation of the performance of their boards. Just over one-quarter of the agency heads agreed that "the performance of my board is adequately evaluated by the government". Disagreement was concentrated among chief executive officers who saw their agencies' tasks as being "private sector" in character. Forty-six percent of the respondents had no opinion concerning the process for evaluating their boards of directors.

The Policy Relationships of Parliament, Government, and Crown Agencies (Section I)

Responses to the first section of this part of the Questionnaire demonstrated that, in the views of the chief executive officers, the CEO himself and the board had more influence on agency policy than any governmental body or Parliament.



* The questionnaire listed 19 possible sources of influence, but only the significant results are displayed.

** The average imputed influence is calculated as the arithmetic mean of the positive responses to the question on influence scaled from 0 for "none" or "non-applicable" through to 4 for "very great".

The chief executive officers expressed strong agreement with the notion that Crown agencies should be seen and employed as instruments of public policy. However, they were divided on the success of the Government's efforts to date to establish objectives and priorities and to communicate them. A majority agreed that "government should develop mechanisms to ensure that Crown agency objectives are compatible with national objectives". Disagreement was concentrated among the heads of "commercial" Crown agencies.

Responses indicating the views of agency heads concerning Crown agencies as instruments of public policy

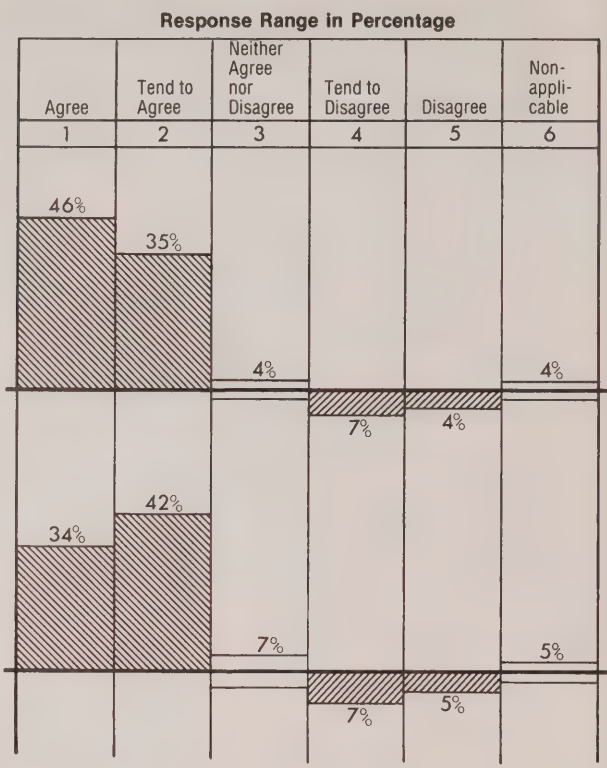
F-65

A large majority agreed that "Crown agencies should be viewed as instruments for the achievement of broad national policy objectives".

However, the dissenting minority is a significantly homogeneous group. All are from agencies identified as private sector in character and completely independent financially of the government; and all but one have been in their positions for longer than three years.

F-72

There was the same measure of agreement that "government should develop mechanisms to ensure that Crown agency objectives are compatible with national objectives".

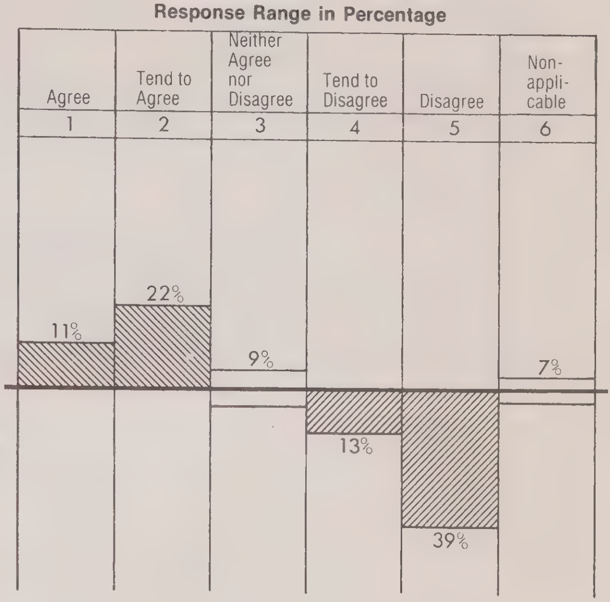


Responses indicating perceptions of government objectives for Crown agencies

One-third of the respondents agree that "the government has conflicting objectives for my agency".

F-73

42% of those from "private sector" agencies agree, while only 20% from "government sector" agencies agree. More than 2 / 3 of those in agreement come from financially independent agencies, and more than 1 / 2 who agree were CEOs recruited from outside government.



Corporate Planning and Objective Setting

Responses indicated that chief executive officers attached a good deal of importance to corporate planning and objective setting. A large majority agreed that statements of long-range plans and objectives should be used to justify appropriation requests, that informal liaison with departmental officials is essential to the formulation of long-range plans, and that informal liaison with other departments and agencies is useful in developing a long-range strategy.

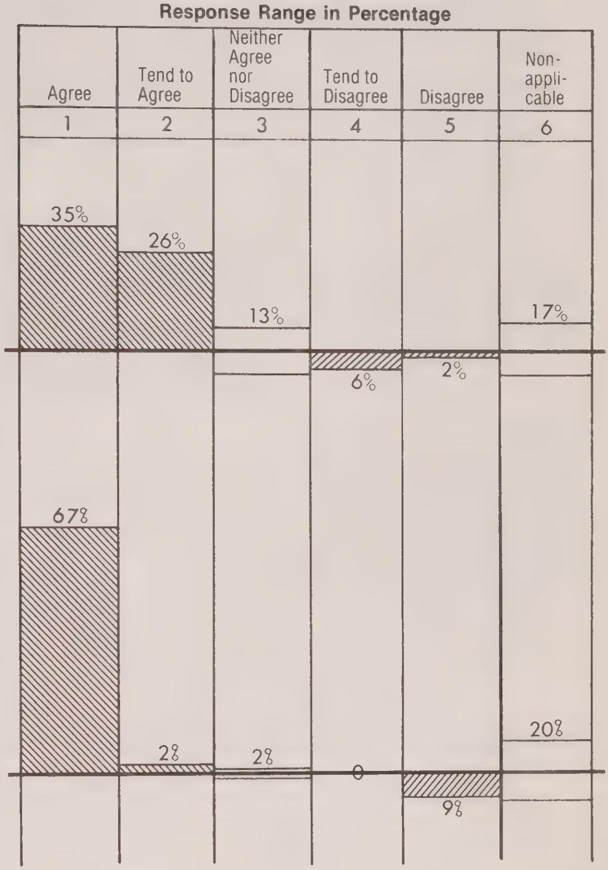
There was strong agreement that appearances before standing committees of the House of Commons provide an opportunity for useful reviews of agency objectives and spending plans. The 28% "not applicable" (N/A) response is partly explained by the fact that 22% of the chief executive officers responding have never had any working contact with Parliament.

There was an even split of opinion on the question of whether the agency head made use of informal contacts with MPs to canvass their views about agency objectives and programs.

Budgetary Review and Approval Process

With respect to the review and approval of budgets, a majority of respondents indicated that budget and appropriation submissions were prepared in consultation with the ministers' departments. Agency heads indicated that they believed the designated minister understood the budgetary submissions. Most boards of directors approve appropriation and budget submissions before they are submitted to Government. Half of the respondents agreed that the "Treasury Board played a useful role in the approval of budgets and appropriations".

Responses concerning budgetary review and approval process



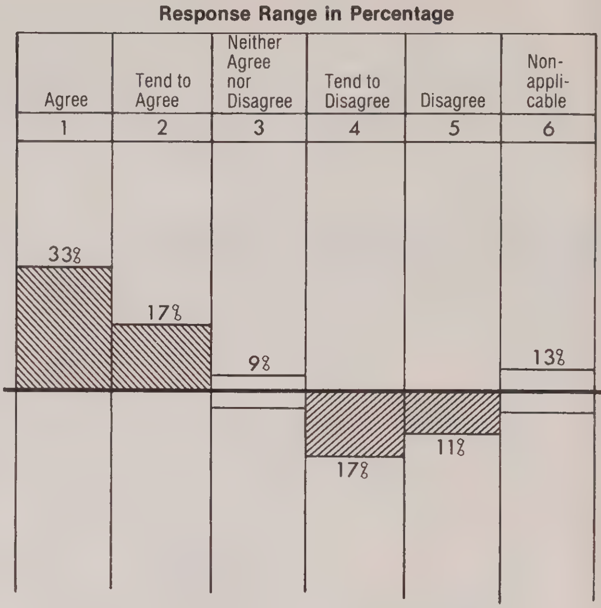
There was a significant measure of agreement that the designated minister "fully understands our budgetary and appropriations submissions".

F-81

In most agencies the "board of directors approves appropriation and budget submissions before they are submitted to government".

F-76

Responses concerning budgetary review and approval process



Half of the sample agreed that "Treasury Board plays a useful role in the approval of appropriations and budgets".

F-80

Disagreement with this statement was more concentrated in "government sector" agencies than in "private sector" agencies. Disagreement was also concentrated in the financially dependent agencies. 60% of those disagreeing came from this category.

Assumption by Government of Other Powers

Except for a directive power, the agency heads do not support the assumption by Government of other powers which would tend to strengthen the Government's hand in relation to crown agencies. A majority of respondents agreed that directives were a necessary instrument to permit the Government to communicate priorities and objectives to Crown agencies. The respondents who disagreed were concentrated in agencies with a "private sector" orientation.

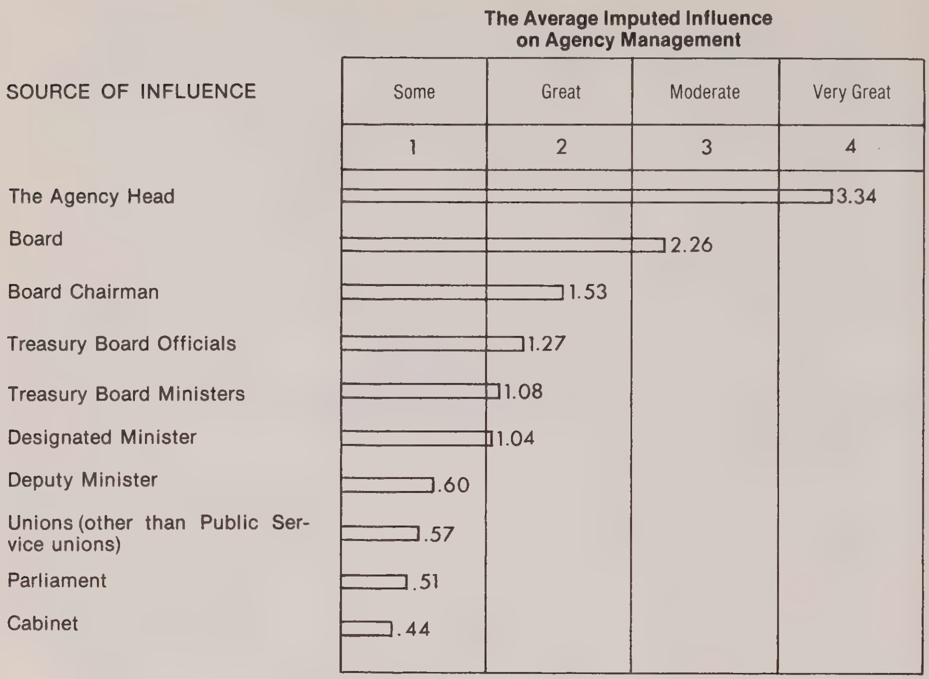
Of the 59% of all respondents who found the statement applicable to their situations, less than half agreed that the creation and acquisition of subsidiaries should be more closely controlled by government. Opposition was concentrated among "private sector" oriented agencies.

The Management Relationships of Parliament, Government, and Crown Agencies

Responses in this area indicated that, in the view of the chief executive officers, the greatest influence on management practices within agencies came from the CEO himself and the agency's board. Less than a majority of respondents agreed that agency perfomance would improve if Government gave more autonomy to the agency. Those who wanted more autonomy were largely concentrated in the "Branches Designated as Departments" and in the Schedule B corporations.

In the area of financial management practices, the respondents appeared to be generally content with the existing relationships with government and Parliament.

Responses concerning the sources of influence on agency management



* The questionnaire listed 19 possible sources of influence, but only the significant results are displayed.

With respect to levels of disclosure, agency heads appeared to be satisfied with the existing requirements but indicated an interest in moving financial reporting and disclosure practices in the direction of private sector standards. Over three-quarters agreed that annual reports provided enough information for Government and Parliament to evaluate the performance of agencies. Close to three-quarters indicated that they kept their ministers informed about management issues of importance to the agency, and about the same number felt that ministers and the government were content with the quantity and quality of their financial reports. There was unanimous agreement that "generally approved accounting and disclosure principles" were appropriate to the agency operation.

There was indication of support for the application of a governmental approach to auditing practices. Nearly half of the respondents agreed that auditing for effectiveness and efficiency could be usefully applied to their operation by their own external auditors. Almost three-quarters of the respondents agreed that the Government should be responsible for establishing codes of conduct for Crown agencies.

Most of the questions about personnel management practices, like those on financial management practices, seemed to reflect a basic satisfaction with the existing system.

Almost three-quarters of the respondents agreed that they deal effectively with unsatisfactory performers. Those who disagreed were mostly in "Branches Designated as Departments", Schedule B, and Schedule C corporations. The closer to the public service, the more negative the responses.

Significant exception was taken to present salary levels. Half of the respondents agreed that salary levels inhibited recruitment of top-flight personnel.

There was strong agreement that CEO's had adequate authority to hire their management teams, and there was almost universal disagreement with the statement that political pressure was a significant factor in making management appointments. Similarly, no one agreed that personnel systems would work better if they were integrated more closely with the public service system.

AGGREGATE RESPONSES TO THE CROWN AGENCY HEAD QUESTIONNAIRE

A. BACKGROUND INFORMATION

Please choose the appropriate response and circle the number associated with it for the following questions.

1. How is your agency presently categorized under the Financial Administration Act or the Treasury Board Secretariat List of government-owned and controlled corporations

– Branch designed as a department	5
– Schedule B corporation	5
– Schedule C corporation	10
– Schedule D corporation	14
– Other government corporation	4
– Mixed enterprise corporation	1
– Subsidiary corporation	0
– Associated corporation	1
– Other entity or associate	3
– No answer	3

2. How many people work in your agency

0 – 50	12
51 – 100	6
101 – 500	8
501 – 1000	5
1001 – 5000	10
Over 5000	5

3. How can your agency's task be categorized. If it has more than one task please indicate

Primary Task		Secondary Task		Tertiary Task	
Coordinating	2	Coordinating	1	Coordinating	4
Operating a facility	8	Operating a facility	4	Operating a facility	1
Marketing	4	Marketing	1	Marketing	5
Granting	2	Granting	2	Granting	1
Advising	2	Advising	6	Advising	–
Researching	2	Researching	3	Researching	5
Funding	5	Funding	–	Funding	1
Producing a product	3	Producing a product	2	Producing a product	–
Regulating	–	Regulating	2	Regulating	2
Other (please specify)	8	Other (please specify)	1	Other (please specify)	1
No answer	10	No answer	24	No answer	26

4. Does the nature of your agency's task more closely parallel those undertaken in the private sector or the governmental sector

Private Sector	29
Governmental Sector	16
No answer	1

5. Does your agency compete with private sector organizations

No	23
Partially	13
Fully	9
No answer	1

6. Does your agency receive loans from the federal government to meet capital expenditures

Yes	14
No	32

7. Indicate the level of financial independence of your agency in terms of the percent of last year's operating budget obtained through Parliamentary appropriations, grants or contributions

0%	17
1 – 25	9
25 – 50	
50 – 75	6
75 – 90	
90 – 100	14

8. Is your agency a separate employer with respect to the Public Service Employment Act

Yes	34
No	10
No answer	2

9. Did you enter the senior ranks of Crown agency management from

– Within your agency	–
– Another Crown agency	11
– Other federal government position	15
– Other level of government	–
– Private Sector	17
– Other (please specify)	2
– No answer	1

10. How many years have you worked in each of the following:

	Under 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years	N/A
A – Your present job	8	13	10	15	1
B – Federal public service	–	–	4	18	24
C – Other positions in your agency	–	1	3	9	33
D – Other Crown agencies	–	1	2	5	38
E – Other levels of government	–	1	–	3	42
F – Private sector	–	2	3	25	16

B. STATEMENTS CONCERNING THE AGENCY HEAD APPOINTMENT PROCESS

In this and the remaining sections of the questionnaire, the term "Board" is used in the generic sense to identify the following bodies: a Board of Directors, a Council, or Commission.

1. Would you indicate for each of the individuals or bodies listed below whether they:

   (a) played a role in your appointment process
   (b) played too small a role in your appointment process
   (c) played too large a role in your appointment process

	(a) Played a role			(b) Played too small a role			(c) Played too large a role		
	Yes	No	Uncertain	Yes	No	Uncertain	Yes	No	Uncertain
Prime Minister	22	9	9	–	10	7	–	10	5
Cabinet	23	9	7	–	10	5	–	10	4
Privy Council Office	19	8	12	–	8	6	2	9	4
Designated Minister	38	3	2	2	10	5	2	8	3
His or Her DM	14	8	8	–	7	5	2	5	5
The Board	23	7	1	7	10	1	–	11	2

For each of the following statements, please circle 1 if you agree with the statement, 2 if you tend to agree, 3 if you neither agree nor disagree, 4 if you tend to disagree, 5 if you disagree with the statement and 6 if it is not applicable.

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Dis-agree	Dis-agree	N/A
12. Appointment as an agency head is based more on whom you know, rather than what you do	2	5	6	13	16	4
13. Administrative skills are given sufficient consideration in making agency head appointments	10	18	4	7	5	2
14. The existing appointment process for agency heads is satisfactory	5	9	8	13	7	4
15. Policy advisory skills are important factors in the Crown agency head appointment process	19	10	11	3	1	2
16. The satisfactions of the agency head position are well worth the personal investment required	21	8	4	8	1	4
17. A good agency head who wears out early because of job pressure is treated well	1	6	18	7	4	10
18. I was satisfied with the consultation process leading up to appointment to my present position	25	8	1	4	5	3
19. When I was appointed to this job I was told what was expected of me	15	6	3	4	15	3
20. Senior management experience is more important to my success than knowledge of government administrative procedures	25	13	2	3	–	3

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
21. The agency head appointment process is too politicized	4	6	12	12	10	2
22. Agency heads generally could faithfully serve a government formed by another political party	32	10	1	1	–	2

C. STATEMENTS ABOUT AGENCY HEAD PERFORMANCE EVALUATION

23. Would you indicate for each of the individuals or bodies listed below whether they:
  (a) have a good understanding of your administrative performance
  (b) are in fact involved in your performance evaluation
  (c) should be involved in your performance evaluation

	(a) Have a good Understanding of my Peformance			(b) Are involved in my Evaluation			(c) Should be Involved in my Evaluation		
	Yes	No	Uncertain	Yes	No	Uncertain	Yes	No	Uncertain
Prime Minister	5	20	14	–	23	11	5	24	3
Cabinet	16	20	13	1	21	11	8	23	2
Privy Council Office	18	15	16	10	14	9	8	22	2
Committee of Senior Officials	8	10	18	12	11	11	8	15	8
Designated Minister	23	14	10	20	7	8	23	9	–
His or Her DM	14	4	12	12	6	9	8	13	2
Board	27	1	5	18	10	2	24	4	1

For each of the following statements, please circle 1 if you agree with the statement, 2 if you tend to agree, 3 if you neither agree nor disagree, 4 if you tend to disagree, 5 if you disagree with the statement and 6 if it is not applicable.

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
24. My overall performance as an agency head has been evaluated fairly	12	6	9	5	3	11
25. I understand the basis on which my performance is evaluated	11	6	4	4	9	12
26. My Board's evaluation has a strong influence on my overall evaluation	14	2	5	3	9	13
27. Given A.I.B., I was satisfied with the amount of my last pay increase	16	4	1	5	12	8
28. Agency heads not performing satisfactorily are dealt with effectively	–	2	15	12	6	11
29. I know what my performance evaluation is for last year	10	2	1	4	12	17
30. Increases in my salary are closely tied to my evaluation	2	6	7	8	12	11
31. Policy advisory skills are given substantial weight in my evaluation	3	9	11	3	4	16

D. STATEMENTS ABOUT THE BOARD OF DIRECTORS

> If your answer to any part of question No. 32 is "yes", then please complete the rest of this section. If it is "no", then proceed to Section E.

32. My agency has a:

(a) Board of Directors	Yes	30	No	7	N/A	9
(b) Council	Yes	6	No	11	N/A	29
(c) Commission	Yes	3	No	11	N/A	32

33. My board has a separate Chairman — Yes 21 No 18 N/A 7

34. My board has the following active committees

Executive	7
Auditing	8
Long range planning	–
Management assessment	–
Public responsibility	–
Pension	–
Other (please specify)	–
N/A	31

35. My board is

Too large	2
Too small	8
The right size	28
N/A	8

36. My board meets

Frequently enough	33
Not often enough	4
Too often	2
N/A	7

37. Please signify whether the Board, Council or Commission of your agency *does* have a significant role or whether it *should* have a significant role in the following activities.

	Board *does* have a significant role				Board *should* have a significant role			
	Yes	No	Un-cer-tain	N/A	Yes	No	Un-cer-tain	N/A
a) The hiring and firing of the agency head	16	18	2	10	25	6	3	12
b) The remuneration of the agency head	9	23	3	11	25	10	–	11
c) Interpreting the significance of government policy for agency objectives	25	11	1	9	25	6	–	15
d) The recruitment of new Board members	7	27	1	11	22	9	6	9
e) Advising on all major decisions to be taken by the agency	32	5	–	9	30	3	–	13
f) The agency's reporting relationship with the Minister	13	18	3	12	18	9	4	15
g) Informing the public of the agency's activities	13	21	2	10	17	13	4	12
h) The hiring and firing of the Chairman	10	21	2	13	19	10	2	15
i) The remuneration of the Chairman	6	23	3	14	17	12	1	16
j) Defending the agency against inappropriate government intrusion	22	9	3	12	31	2	1	12
k) The day-to-day administration of the agency	6	30	–	10	6	29	1	10
l) Regularly holding me accountable for the management performance of the organization	33	3	1	9	31	2	–	13
m) Interpreting the agency's mandate	33	3	1	9	32	–	1	13

For each of the following statements, please circle 1 if you agree with the statement, 2 if you tend to agree, 3 if you neither agree nor disagree, 4 if you tend to disagree, 5 if you disagree with the statement and 6 if it is not applicable.

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
38. My board has the necessary information to hold me accountable	28	8	1	1	1	7
39. An audit committee should be composed of outside directors	18	3	4	2	5	14
40. Public servants should not be on agency boards	13	5	6	5	10	7
41. My board has sufficient competence to take on increased responsibilities	23	7	4	3	–	9
42. The performance of my board is adequately evaluated by the government	5	4	9	10	6	12
43. I am given sufficient latitude by my board to do my job	34	2	–	1	1	8
44. The board is my most useful source of advice	16	5	9	5	3	8
45. My board's committee system performs up to my expectation	16	6	4	2	2	16
46. The minister usually consults with me on board appointments	19	5	2	2	7	11
47. My board provides a satisfactory accounting to the Minister for the performance of the agency	18	8	5	1	2	12
48. Appointments to boards are based primarily on expertise	9	13	3	5	6	10

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
49. Having the agency head on the board creates a conflict of interest situation	2	2	2	8	23	9

E. STATEMENTS ABOUT YOUR SENIOR MANAGEMENT TEAM

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
50. I review important senior personnel decisions with my board before I take action	29	5	–	2	7	3
51. Our organization places a strong emphasis on management training and development	20	12	6	6	1	1
52. Our personnel system would work better if it were integrated more closely with the public service system	–	–	6	8	31	1
53. Merit is properly reflected in the pay increases of my senior management	23	12	1	6	2	2
54. We deal effectively with unsatisfactory performers within our agency	16	17	6	6	1	–
55. I have adequate authority to hire my management team	30	9	1	3	2	1
56. Political pressure is a significant factor in making senior management appointment	–	2	–	6	38	–
57. My chief financial officer takes part in all major executive decisions	31	8	2	2	2	1
58. Salary levels inhibit recruitment of top-flight personnel	14	9	5	8	9	1

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A

F. STATEMENTS ABOUT MANDATE SETTING, CORPORATE PLANNING AND BUDGETING

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
59. The mandate of my agency has shifted significantly since its creation	9	6	4	4	22	1
60. The goals of my organization are no longer adequately reflected in the legal mandate of my agency	6	6	–	8	24	2
61. The creation and acquisition of subsidiaries should be more closely controlled by government	7	5	6	5	4	19
62. An agency's mandate should only be altered by legislation	20	12	2	8	1	3
63. Decisions of regulatory agencies have had the effect of altering the mandate of this agency	3	8	4	5	22	4
64. Directives are a necessary instrument to permit government to communicate their priorities and objectives to Crown agencies	13	13	5	3	8	4
65. Crown agencies should be viewed as instruments for the achievement of broad national policy objectives	21	16	2	3	2	2
66. A "memorandum of understanding" on goals and objectives between my agency and the government would help to clarify the agency's mandate	10	7	9	6	7	7
67. My agency has a clear set of policy objectives against which its performance can be evaluated	20	15	2	4	3	2

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
68. Informal liaison with my minister's departmental officials is essential to the formation of long range plans	19	10	4	3	6	4
69. Informal liaison with other departments and agencies is useful in developing a long-range strategy for my agency	19	16	1	1	2	7
70. I receive adequate guidance concerning government priorities	6	14	7	9	3	7
71. I make use of informal contacts with MPs to canvass their views about my agency's objectives and programs	12	8	6	6	10	4
72. Government should develop mechanisms to ensure that Crown agency objectives are compatible with national objectives	14	20	3	4	3	2
73. The government has conflicting objectives for my agency	5	10	4	6	18	3
74. Statements of long range plans and objectives should be used to justify our appropriation requests	19	12	–	1	2	12
75. Budget discussions with the Department of Finance are worthwhile and productive	7	5	6	4	4	20
76. My Board of Directors approves our appropriation and budget submissions before they are submitted to government	31	1	1	–	4	9

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
77. Our budget submissions to government are in the same format as those we use internally	21	8	–	1	9	7
78. Our budget and appropriation submissions are prepared in liaison with the Minister's department	14	11	–	2	14	5
79. Treasury Board should provide more leadership in defining the form, content and support information required for appropriations submissions and budget presentations	5	4	2	11	18	6
80. Treasury Board plays a useful role in the approval of appropriations and budgets	15	8	4	8	5	6
81. My minister fully understands our budgetary presentations and appropriations submissions	16	12	6	3	1	8
82. My appearances before Standing Committees of the House provide the opportunity for useful reviews of my agency's objectives and spending plans	18	6	2	3	4	13
83. All budget and appropriation submissions should be integrated and presented to Parliament at the same time	9	6	9	7	3	12
84. Requests for loans by Crown agencies should be supported by feasibility studies with respect to the agency's ability to repay	18	3	6	1	–	18

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
85. Recapitalization through the transfer of debt into equity is an appropriate tool for establishing a realistic capital structure for a Crown agency	9	5	7	2	2	21
86. My agency is not being given the freedom to apply the "user pay" philosophy where it is appropriate	2	4	4	7	12	17
G. STATEMENTS ABOUT THE MANAGEMENT PROCESS						
87. My agency's performance would improve if government gave more autonomy to the agency	5	7	7	5	14	8
88. Approval of by-laws by the governor-in-council is an appropriate central management responsibility	8	5	8	3	8	14
89. I feel personally responsible for ensuring that we have good financial controls	43	3	–	–	–	–
90. Generally approved accounting and disclosure principles are appropriate for my operation	40	6	–	–	–	–
91. I keep my Minister informed about management issues of importance to the agency	26	7	3	1	3	6
92. Ministerial involvement in agency affairs is sporadic	15	11	4	5	6	5
93. I regularly make supplementary data (financial reports, by-laws, minutes) available to the Minister on his request	24	5	1	1	9	6

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
94. The minister and the government are content with the quantity and the quality of our financial reports	23	11	6	–	–	6
95. Internal auditing assists in improving management performance in my agency	28	10	1	2	1	4
96. TBS effectively consults with me prior to negotiating collective agreements that directly affect my operation	2	2	3	1	5	33
97. Effective management of our operation requires separate employer status	28	6	3	1	2	6
98. TBS administrative directives provide useful support to Crown agency management	9	14	2	5	3	13
99. The government should be responsible for establishing codes of conduct for Crown agencies	20	12	3	3	4	4
100. Use of government common services improves administrative efficiency and economy	6	7	4	12	9	8
101. Our annual report provides enough information for government and Parliament to evaluate agency performance	27	8	2	7	2	–
102. Auditing for effectiveness and efficiency could be usefully applied to my operation by our external auditor	14	6	4	7	6	9

	Agree	Tend to Agree	Neither Agree nor Disagree	Tend to Disagree	Disagree	N/A
103. Efficiency and effectiveness measurement systems can be applied to my operation	18	12	7	6	2	1

H. REASONS FOR SPECIAL STATUS

a) The following list contains 13 statements relating to possible reasons why your agency has been given status different from that enjoyed by a conventional department within the governmental system. For each possible reason stated, please circle 1 if it is of key importance, 2 if it is of some importance, and 3 if it is inapplicable. Add other reasons and rank them if necessary.

Reasons	Of Key Importance	Of Some Importance	N/A
1. To remove a specific operation from overloaded department	5	6	35
2. To highlight a new governmental activity	8	6	32
3. To take advantage of the board form of leadership	22	13	11
4. To avoid public service personnel controls and procedures	18	4	24
5. To avoid public service financial controls and procedures	12	12	22
6. To provide a buffer from political influence	23	13	10
7. To provide legal status separate from the government	24	11	11
8. To allow for impartial administration and decision-making	29	11	6
9. To facilitate decentralized operations	12	8	26
10. To allow for independent regulation	15	8	23
11. To bring skilled, regional or constituency advice to bear	10	10	26
12. To take on a commercial function	26	6	14
13. To take on a joint venture with another government or the private sector	17	12	17
14. Other (specify)	4	–	42

b) Now would you indicate which of the reasons identified above are most important, by circling in the columns below the numbers of the three most important reasons.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	N/S
1 Most Important	2	1	–	1	–	7	1	1	–	1	3	16	5	3	5
2 Second Most Important	–	3	7	3	1	3	8	8	–	1	2	3	2	–	5
3 Third Most Important	3	1	7	2	1	4	3	7	4	4	1	–	4	–	5

I. DEGREE OF INFLUENCE

Below are 19 officials or bodies with varying degrees of influence on your agency. Please estimate the degree of influence each possible source has on your agency, by circling one score under policy influence and one score under managerial influence.

	DEGREE OF INFLUENCE											
	Influence on agency policy (except administrative policy)						Influence on agency management (including administrative policy)					
	N/A	None	Some	Moderate	Great	Very Great	N/A	None	Some	Moderate	Great	Very Great
1. Parliament	8	7	12	8	5	6	12	17	12	1	2	2
2. Prime Minister	12	15	11	4	1	3	12	23	7	3	–	1
3. Cabinet	9	8	14	6	5	4	13	18	10	4	–	1
4. Privy Council Office officials	9	19	12	3	2	1	12	22	9	2	–	1
5. Political staff of PM	11	28	6	–	–	1	14	29	1	–	1	1
6. Treasury Board Ministers	8	6	17	4	10	1	9	14	7	7	8	1
7. Treasury Board officials	7	8	11	10	7	3	8	11	10	6	7	4
8. Public Service Commission	18	23	4	1	–	–	19	17	5	1	4	–
9. Department of Finance	9	12	18	3	3	2	11	21	12	1	–	1
10. Your minister	5	2	7	14	8	10	7	7	16	12	2	2
11. Your minister's staff	8	16	12	6	3	1	7	24	14	–	–	1
12. Your minister's DM	8	6	18	8	3	3	10	12	18	6	–	–
13. Your minister's department	9	9	16	7	3	2	9	17	16	4	–	–
14. Relevant regulatory agency	28	5	5	2	6	–	28	10	5	1	1	1
15. Your Board of Directors, Council or Commission	7	–	3	4	7	25	9	1	5	7	11	13
16. Your Board Chairman	16	–	1	8	7	14	19	1	6	5	7	8
17. Public service employee unions	22	17	6	1	–	–	22	10	10	4	–	–
18. Other unions	23	9	10	2	1	1	22	7	11	4	2	1
19. Agency head – yourself	1	–	–	3	17	25	4	1	–	–	10	31

J. FREQUENCY OF CONTACT

Please estimate the frequency of work-related verbal communication (either face-to-face or over the telephone) that you have with each of the following contacts, by circling the appropriate score:

	FREQUENCY										
	Never	Less than annually	Once a Year	2 or 3 times a year	Every couple of months	Once a month	About twice a month	Just about every week	2 or 3 times a week	About daily	Not applicable
1. Parliament	11	8	11	8	–	–	2	2	–	–	4
2. Prime Minister	21	8	5	7	1	–	–	–	–	–	4
3. Cabinet	20	6	4	7	4	–	1	1	–	–	3
4. Privy Council Office officials	7	11	2	10	8	1	1	2	1	–	3
5. Political staff of PM	25	6	1	7	1	2	1	–	–	–	3
6. Treasury Board Ministers	8	13	8	10	2	1	–	–	–	–	4
7. Treasury Board officials	3	5	5	11	4	8	4	1	2	–	3
8. Public Service Commission	24	7	3	2	2	1	–	1	–	–	6
9. Department of Finance	14	10	6	6	4	2	–	–	1	–	3
10. Your minister	1	6	3	1	6	12	4	6	4	1	2
11. Your minister's staff	2	4	3	4	3	2	10	9	4	2	3
12. Your minister's DM	4	4	1	4	9	7	6	3	2	3	3
13. Your minister's department	2	1	–	3	8	7	3	8	7	2	5
14. Relevant regulatory agency	7	1	–	5	2	–	4	1	–	–	26
15. Your Board of Directors, Council or Commission	–	–	1	4	9	13	10	2	1	–	6
16. Your Board Chairman	–	–	1	–	–	1	4	4	5	3	28
17. Your senior management team	–	–	1	–	–	1	3	10	3	25	3
18. Public service employee unions	14	4	–	4	2	2	–	1	–	–	19
19. Other unions	8	4	1	8	–	2	2	–	–	–	21

K. STATEMENT OF RESPONSIBILITIES

Please select the five most important of your responsibilities from the 15 statements listed below. Then rank the five by putting a 1 beside the most important responsibility, a 2 beside the second most important, a 3 beside the third most important, a 4 beside the fourth most important, and a 5 beside the fifth most important, under the column heading "My Selection and Ranking of the Top 5". Please give us your view of how others would rank your responsibilities by repeating the ranking process under each column heading:

Responsibility	My Selection	My guess at the selection and ranking that would be made by:				
		My Board	My Minister	Treasury Board	Dept. of Finance	Privy Council Office
1 Achieving my agency's mission	37	29	26	18	17	20
2 Ensuring that my agency has a sound strategic plan	26	20	18	13	12	12
3 Assuring economy in operations	20	19	10	21	13	6
4 Making a profit	16	15	8	9	11	3
5 Ensuring that my agency is responsive to the policy thrusts of the government	12	9	19	14	13	19
6 Exercising adjudication/regulation authority assigned directly to my agency by statute	4	4	3	5	2	7
7 Following centrally developed administrative policies	1	0	2	11	5	8
8 Managing my executive team	23	15	6	7	6	9
9 Ensuring that my agency is responsive to the forces of the marketplace	15	13	7	3	4	2
10 Performing the role of leader for my agency's employees	11	7	4	3	2	3
11 Protecting the integrity of my agency from inappropriate political action	10	7	3	2	2	4

Responsibility	My Selection	My guess at the selection and ranking that would be made by: My Board	My Minister	Treasury Board	Dept. of Finance	Privy Council Office
12 Providing the government with policy advice	11	8	8	7	4	7
13 Setting up/building my agency's management capability	17	13	6	7	4	4
14 Supporting the minister	5	3	12	1	2	6
15 Maintaining a strong and effective Board	9	13	7	1	2	2

L. RESPONSIBILITY RELATIONSHIPS

Please indicate to whom you think you are most responsible by circling one response only for each of the 15 responsibility statements

Responsible for	Responsible to														
	The public	Parliament	Prime Minister	Minister	Cabinet	Privy Council Office	Dept. of Finance	Treasury Board Ministers	Treasury Board Secretariat	Public Service Commission	Com. of Senior Officials	Board	Board Chairman	Myself	Not a responsibility
1. Achieving my agency's mission	14	11	–	6	1	–	–	–	–	–	–	11	–	–	3
2 Ensuring that my agency has a sound strategic plan	–	2	–	12	1	–	–	–	1	–	–	25	–	1	4
3 Assuring economy in operations	7	4	–	2	–	–	–	5	3	–	–	18	–	3	4
4 Making a profit	4	1	–	1	–	1	–	–	–	–	–	15	–	2	22
5 Ensuring that my agency is responsive to the policy thrusts of the government	1	–	1	22	4	1	–	1	–	–	–	5	1	–	10
6 Exercising adjudication/regulation authority assigned directly to my agency by statute	2	6	–	8	–	–	–	2	–	–	–	5	–	–	23
7 Following centrally developed administrative policies	–	1	–	7	2	1	–	5	8	–	–	4	–	–	18

	Responsible for	Responsible to														
		The public	Parliament	Prime Minister	Minister	Cabinet	Privy Council Office	Dept. of Finance	Treasury Board Ministers	Treasury Board Secretariat	Public Service Commission	Com. of Senior Officials	Board	Board Chairman	Myself	Not a responsibility
8	Managing my executive team	–	1	–	3	–	–	–	–	–	–	–	25	2	12	3
9	Ensuring that my agency is responsive to the forces of the marketplace	9	1	–	4	–	–	–	–	–	–	–	18	1	1	12
10	Performing the role of leader for my agency's employees	–	–	–	2	–	–	–	–	–	1	1	23	1	14	4
11	Protecting the integrity of my agency from inappropriate political action	7	3	1	6	–	–	–	–	–	–	–	18	–	2	9
12	Providing the government with policy advice	–	1	–	25	3	1	–	–	–	–	1	4	–	–	11
13	Setting up/building my agency's management capability	1	2	–	4	–	–	–	–	1	–	–	27	–	5	6
14	Supporting the minister	–	–	–	21	–	–	–	–	–	–	–	7	–	5	13
15	Maintaining a strong and effective board	5	3	–	14	3	–	–	–	–	–	–	5	2	4	10

Agencies that Received the Questionnaire

Agriculture Stabilization Board
Air Canada
Atomic Energy of Canada Ltd.
Atomic Energy Control Board
Bank of Canada
Canada Council
Canada Development Corporation
Canadair Limited
Canadian Arctic Producers Ltd.
Canadian Broadcasting Corporation
Canadian Commercial Corporation
Canadian Dairy Commission
Canadian Film Development Corporation
Canadian Livestock Feed Board
Canadian National Railways
Canadian Patents and Developments Ltd.
Canadian Saltfish Corporation
Canadian Wheat Board
Canarctic Shipping Company Ltd.
Cape Breton Development Corporation
Central Mortgage and Housing Corporation
Crown Assets Disposal Corporation
Defence Construction (1951) Ltd.
The deHavilland Aircraft of Canada Ltd.
Economic Council of Canada
Export Development Corporation
Farm Credit Corporation
Federal Business Development Bank
Forest Engineering Research Institute of Canada
Freshwater Fish Marketing Corporation
International Joint Commission
International Development Research Centre
Lakehead Harbour Commission
Loto Canada Inc.
Medical Research Council
Metropolitan Area Growth Investments Limited
Municipal Development and Loan Board
National Arts Centre Corporation
National Capital Commission
National Farm Products Marketing Council
National Film Board
National Harbours Board
National Library
National Museums of Canada
National Parole Board
National Research Council
Newfoundland and Labrador Development Corp. Ltd.
Northern Canada Power Commission
Commissioner of Official Languages
Pacific Pilotage Authority

Petro-Canada
Polysar Limited
Public Archives
Public Works Lands Co. Ltd.
Royal Canadian Mint
Royal Canadian Mounted Police
St. Lawrence Seaway Authority
Science Council of Canada
Société de parc industriel et commerciale aéroportuaire de Mirabel
Société des transports du Nord Ltée.
Standards Council of Canada
Teleglobe Canada
Telesat Canada
Toronto Harbour Commissioners
Via Rail Canada Inc.

- SUBMISSIONS TO THE COMMISSION
- MEETINGS OF THE COMMISSION
- STAFF AND CONSULTANTS

SUBMISSIONS TO THE COMMISSION

Government

Bank of Canada. *Bank of Canada: Management and Accountability.*
Commissioner of Official Languages. "Brief to the Commission".
Department of Finance. "Statement to the Royal Commission on Financial Management and Accountability".
Department of National Health and Welfare. "Brief to the Commission".
Department of National Revenue. J. P. Connell, Deputy Minister.
Department of Supply and Services. J. M. Desroches, Deputy Minister.
Foreign Investment Review Agency. "Some Characteristics of FIRA".
Privy Council Office. *Responsibility in the Constitution.*
Background Paper on Senior Personnel in the Public Service: Deputy Ministers.
Background Paper on Non-departmental Bodies of the Government of Canada.
The Functioning of the Privy Council Office.
Public Service Commission. *Accountability and the Public Service Commission.*

Organizations

Business Council on National Issues (including submissions from member organizations)
Canadian Bankers' Association
Canadian Certified General Accountants' Association
Corporation House Ltd.
Financial Management Institute
Maclean-Hunter Limited
Noranda Mines Limited
Society of Management Accountants of Canada
Teleglobe Canada

Individuals

Crow, Stanley
Farthing, E. G.
Fergus, M. J.
Gibson, R. B.
Grossman, Edward
Hegewald, C. H.
Henderson, Maxwell
Hicks, Barry E.
McCormick, John
McCulloch, J. A. W.
Muir, Keith W.
Payette, Raymond
Quittner, J. K. A.
Reid, J. M., MP
Rowe, J. Y.
Roy, Dewey D.
Salyzyn, Vladimir
Wornell, K. and F. Schwartz

MEETINGS OF THE COMMISSION

In addition to its private working sessions, the Commission met with the following groups and individuals:

December 19-20, 1976, Ottawa	Mr. P. M. Pitfield Clerk of the Privy Council and Secretary to the Cabinet Mr. R. G. Robertson Secretary to the Cabinet for Federal-Provincial Relations Mr. G. F. Osbaldeston Deputy Minister, Industry, Trade & Commerce Dr. M. LeClair Secretary of the Treasury Board
February 1977, London, England	Sir Peter Carey Secretary, Department of Industry Sir Douglas Allan Head of the Home Civil Service and Permanent Secretary to the Civil Service Department Rt. Hon. Lord Armstrong of Sanderstead (former Head of the Home Civil Service and Permanent Secretary to the Civil Service Department) Sir Douglas Henley Comptroller and Auditor General, Exchequer and Audit Department Sir David Pitblado (former Comptroller and Auditor General) Mr. R. W. L. Wilding Civil Service Department Mr. L. Pliatzky Second Permanent Secretary, H.M. Treasury Mr. F. Jones Deputy Secretary, H.M. Treasury
February 21, 1977, Ottawa	Mr. D. R. Yeomans Associate Executive Director Anti-Inflation Board Mr. P. C. Dobell Parliamentary Centre for Foreign Affairs Mr. M. Héroux Parliamentary Centre for Foreign Affairs

February 21, 1977, Ottawa (cont'd)	Mr. W. R. Teschke Deputy Secretary to the Cabinet (Plans) Mr. B. A. MacDonald Deputy Secretary, Planning Branch Treasury Board Secretariat The Honourable C. M. Drury, P.C., M.P.
March 22-23, 1977, Ottawa	Mr. S. Mensforth Deputy Secretary Financial Administration Branch Treasury Board Secretariat Mr. T. E. Reid Acting Deputy Secretary Planning Branch Treasury Board Secretariat Mr. R. Giroux Director General Staffing Branch Public Service Commission Mr. R. Dale-Harris Partner Coopers & Lybrand
April 5, 1977, Ottawa	Mr. G. S. Smith Senior Assistant Secretary to the Cabinet (Machinery of Government) Mr. D. P. Gracey Privy Council Office
April 12-13, 1977, Ottawa	Mr. D. Morley Deputy Secretary Personnel Policy Branch Treasury Board Secretariat Mr. I. Smyth Assistant Secretary Policy and Program Development Division Personnel Policy Branch Treasury Board Secretariat The Honourable R. L. Stanfield, P.C., M.P. Mr. P. M. Pitfield Dr. M. LeClair
April 26, 1977, Ottawa	Mr. A. W. Johnson President Canadian Broadcasting Corporation Mr. E. Gallant Chairman Public Service Commission Ms. A. Szlazak Commissioner Public Service Commission

April 26, 1977, Ottawa (cont'd)	Mr. J. Edwards Commissioner Public Service Commission Mr. R. G. Robertson Mr. A. Lawrence, M.P. Chairman Public Accounts Committee
April 27, 1977, Toronto	Dr. J. Fleck Deputy Minister Industry & Tourism, Government of Ontario Mr. W. Anderson Management Board, Government of Ontario Mr. B. Karman Executive Director Programs and Estimates, Management Board Government of Ontario Mr. John B. Cronyn Director & Consultant John Labatt Ltd., and Chairman of the Committee on Government Productivity, Province of Ontario
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	Mr. M. Dupuy President Canadian International Development Agency
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	Mr. A. Fortier Under-Secretary of State
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	Mr. W. B. Brittain Deputy Minister Veterans Affairs
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SUMMARY OF RECOMMENDATIONS

PART I: TOWARD A FRAMEWORK FOR ACCOUNTABILITY

Introduction to the Report

PART II: CENTRAL ROLES AND RESPONSIBILITIES

Chapter 5: Setting Limits: The Fiscal Plan

The Commission recommends that

5. 1 each year the Minister of Finance present to Parliament, on behalf of the Government, a five year *Fiscal Plan* which provides estimates of revenues, sets expenditure ceilings, and reflects the expected surplus or deficit. The Plan would be based on the existing tax structure and clearly stated economic assumptions.

Minister presents Fiscal Plan to Parliament—p. 77

5. 2 the Fiscal Plan contain ceilings on expenditures for specified functions of government within the ceiling set on expenditures for each of the five years covered by the Plan.

Ceilings on expenditures—p. 83

5. 3 for the first three years covered by it, the Fiscal Plan contain departmental and agency expenditure ceilings, within the total expenditure limit for each of those years.

5. 4 an annual update of the Fiscal Plan be developed jointly by the Department of Finance, the Privy Council Office, and the Financial Management Secretariat of the Board of Management, and that the Minister of Finance, supported by the President of the Board of Management, submit it to the Cabinet Committee on Priorities and Planning.

Update of Fiscal Plan to Cabinet Committee on Priorities and Planning—p. 85

5. 5 the Government set out clearly the effects on the Fiscal Plan of the Estimates, Supplementary Estimates, and the Budget when it tables these documents.

Effects of Estimates and Budget on Fiscal Plan—p. 89

5. 6 legislative proposals be accompanied by five-year projections of their financial implications and a statement of any consequent adjustments necessary in the Fiscal Plan.

Legislative proposals accompanied by five-year projections—p. 89

Chapter 6: Planning Expenditures and Accounting for Results

The Commission recommends that

Specific purposes to be stated in Estimates—p. 96

6. 1 **each program, activity, and sub-activity displaying resource requirements in the Estimates have a specific stated purpose and, in so far as possible, a measurable result.**

Consolidated Estimates submitted annually—p. 99

6. 2 **Consolidated Estimates presenting government-wide information and the important features of departmental and agency Estimates be submitted annually to Parliament.**

Consolidated Estimates contain comparisons of proposed expenditures with expenditure limits—p. 99

6. 3 **the Consolidated Estimates contain a comprehensive comparison of the total expenditures proposed in them with expenditure limits set out for the Estimates year in the most recent Fiscal Plan.**

Separate Estimates of expenditure for each department—p. 98

6. 4 **separate Estimates of expenditure for each department and agency be tabled at the same time as the Consolidated Estimates, and that such separate submissions be drawn up in accordance with centrally-determined standards of disclosure and accounting practices, with decisions pertaining to detail left to each department and agency.**

Detail to be provided for statutory programs—p. 100

6. 5 **legislation be amended or enacted to require that details of expenditures to be incurred under statutory programs be fully identified and quantified in the Consolidated Estimates and updated in the Supplementary Estimates; and, that the same level of detail as is provided for non-statutory expenditures be provided for statutory expenditures.**

Funding lapse after 5 years for new statutory programs—p. 102

6. 6 **legislation for all new statutory programs, except those relative to interest on the public debt, require that funding lapse automatically at the end of the fifth year following introduction, and that renewal of such funding be authorized only after parliamentary review of the current and projected costs and benefits of such programs.**

Ministers to evaluate existing statutory programs and report to Parliament—p. 103

Minister's report referred to appropriate standing committee

6. 7 **with respect to existing statutory programs, legislation be enacted to require the responsible minister to evaluate once in the next ten years and thereafter every five years the current and projected costs and benefits of all these programs, except those relative to interest on the public debt, and that a report thereon be tabled in Parliament and be automatically and permanently referred to the appropriate standing committee for its consideration and recommendations.**

Discontinue vote-netting—p. 103

6. 8 **the practice of vote-netting be discontinued.**

Prepare annual reports by September 30—p. 107

6. 9 **all departments and agencies be required to prepare complete annual reports by September 30 following the end of the fiscal year to which they relate, that these reports be immediately tabled in the House of Commons or, if the House is not sitting on that date, within 10 days of the time the House next meets, and, that they be automatically and permanently referred to the standing committee that reviews the Estimates of the department or agency concerned.**

6.10 **Volume II of the Public Accounts contain departmental financial statements and other financial data required by the Financial Administration Act, signed by the deputy minister as chief administrative officer and by the senior financial officer, and that it continue to be referred to the Public Accounts Committee.**

Volume II of the Public Accounts—p. 105

Chapter 7: Consolidating the Management Function of Government

The Commission recommends that

7. 1 **the Financial Administration Act be amended to rename the Treasury Board the *Board of Management*, that the new Board be chaired by a senior minister with the title *President of the Board of Management*, and that one of the other five ministers be appointed *Vice-President of the Board of Management.***

Structure of the Board of Management—p. 114

7. 2 **the Board of Management have the responsibilities set out in Sections 5 and 7 of the Financial Administration Act for general administrative policy, organization of the public service, financial management, and personnel management.**

Responsibilities of the Board of Management—p. 114

7. 3 **with regard to financial management, the Board of Management have responsibility to review annual and longer term expenditure plans and programs of departments and Crown agencies requiring appropriations from the Consolidated Revenue Fund, and that these plans and programs be reviewed to ensure that they are in accordance with the priorities and expenditure ceilings approved by the Cabinet in the Fiscal Plan, and that they have been prepared with due regard to the economical and efficient use of personnel and money.**

Board of Management review of annual and longer term expenditure plans—p. 114

7. 4 **the Public Service Employment Act be amended so as to transfer the authority of the Public Service Commission for staffing the public service to the Board of Management, while leaving with the Public Service Commission continuing responsibility for the preservation and monitoring of the merit principle.**

Board of Management responsible for staffing—p. 118

7. 5 **the Board of Management have responsibility for reviewing the effectiveness with which departments and agencies administer the programs and activities set out in their annual expenditure plans.**

Board responsible for reviewing effectiveness of departmental management—p. 130

7. 6 **the Board of Management be supported by two secretaries of the Board, one, the *Secretary for Personnel Management*, and the other, the *Comptroller General.***

Two secretaries of the Board—p. 115

Responsibilities of the Secretary for Personnel Management—p. 118

7. 7 under the direction of the President of the Board of Management, the Secretary for Personnel Management have the central management responsibilities for government-wide policies on manpower planning; appraisal of personnel at the senior management level, and career development of the senior management cadre; collective bargaining; administrative policies relating to personnel, official languages, and training; and, that the Secretary for Personnel Management ensure that positions are correctly classified, departments are staffed in accordance with the Public Service Employment Act, and that departmental organization is monitored and reviewed.

Responsibilities of the Comptroller General—p. 126

7. 8 under the direction of the President of the Board of Management, the Comptroller General have the central management responsibilities for the screening of departmental plans and Estimates; advice on departmental expenditure ceilings and man-year ceilings in the Fiscal Plan; program evaluation policies and procedures, including performance measurement standards; the preparation of the Consolidated Estimates and the Public Accounts; accounting principles and practices, including standards of disclosure required in annual reports and financial statements; the organization of financial services and internal audit in departments; the training and development of financial officers; and, administrative policies concerning contracts and the procurement of matériel and services.

Joint responsibilities of the Secretary for Personnel Management and the Comptroller General—p. 130

7. 9 the Secretary for Personnel Management and the Comptroller General together be responsible, on behalf of the Board of Management, for reviewing the economy, efficiency, and effectiveness with which departments and agencies administer the financial and human resources authorized by Parliament.

Personnel Management Secretariat and Financial Management Secretariat—p. 115

7.10 two secretariats for the Board of Management be established, the *Personnel Management Secretariat* to be headed by the Secretary for Personnel Management and the *Financial Management Secretariat* to be headed by the Comptroller General.

Support staff for the Board of Management—p. 116

7.11 the Secretary for Personnel Management and the Comptroller General draw from their respective secretariats a common staff support group for co-ordinating the preparation of agendas, the recording of minutes and decisions of the Board of Management, and for communicating to departments and agencies the action required of them.

Staffing authority delegated to Secretary for Personnel Management or deputy heads—p. 120

7.12 the Public Service Employment Act be amended to give the Board of Management the authority to make appointments to and within the public service, and to specify that the Board of Management delegate this authority only to the Secretary for Personnel Management or to deputy ministers and their counterparts in Crown agencies.

Secretary for Personnel Management to appoint ADMs—p. 122

7.13 the Secretary for Personnel Management be responsible for appointing assistant deputy ministers and their equivalents, including senior personnel officers and senior financial officers, on the recommendation of the deputy head concerned.

7.14 **the Board of Management reassume the Treasury Board's full responsibility for training, and delegate the authority for carrying it out to the Secretary for Personnel Management.**

Responsibility for training—p. 122

7.15 **training services be provided through a separate, revenue dependent organization reporting to the Secretary for Personnel Management and subject to the accountability régime set out for common service organizations.**

Mechanism for training—p. 122

7.16 **the Public Service Commission be reconstituted as a *Parliamentary Department* with the duty of ensuring that selection and appointment to the public service are made on the basis of merit, and that the Public Service Commission report annually to Parliament those instances where personnel policies, procedures, and actions fail to support the merit principle.**

Public Service Commission reconstituted as a Parliamentary Department—p. 123

7.17 **the autonomy of the Public Service Commission be assured by providing that the appointment of Commissioners by the Governor in Council be for ten years during good behaviour and be subject to ratification by the Senate and the House of Commons, and that removal be upon address of both Houses of Parliament.**

Appointment and removal of Public Service Commissioners subject to joint resolution of both Houses—p. 124

7.18 **the Public Service Commission have the power to direct the Secretary for Personnel Management to cause appointments to be revoked and to institute new competitions or other selection procedures.**

Power to direct Secretary for Personnel Management—p. 124

7.19 **the Program Branch of the Treasury Board Secretariat be transferred to the Financial Management Secretariat.**

Transfer Program Branch—p. 129

7.20 **the Comptroller General be responsible for screening and recommending the approval of departmental Estimates to the Board of Management.**

Comptroller General screens departmental Estimates—p. 130

7.21 **the Comptroller General be empowered by the Board of Management to require that departments conduct specific program evaluations in problem areas identified by the Board, that the Comptroller General set standards for these evaluations, and that the Comptroller General recommend to the President of the Board of Management that action be taken where program evaluation is hindered by jurisdictional disputes.**

Comptroller General to require program evaluations—p. 131

7.22 **the Board of Management direct the Comptroller General, as required, to conduct an evaluation of the effectiveness of any program or program component, or of the economy and efficiency with which a program or component is managed.**

Comptroller General to conduct economy, efficiency, or effectiveness evaluations—p. 132

7.23 **authority and responsibility for the format and content of the Consolidated Estimates and the Public Accounts be assigned to the President of the Board of Management, and that he be supported in these responsibilities by the Comptroller General.**

Consolidated Estimates and Public Accounts the responsibility of the President—p. 134

Comptroller General recommends standards of disclosure and accounting—p. 134

7.24 **the Comptroller General recommend standards of disclosure and accounting to the Board of Management for use in all Estimates, the Public Accounts, and annual reports submitted to Parliament, and that he ensure that the standards approved by the Board are adhered to.**

Chief Accountant of the Government of Canada—p. 135

7.25 **a *Chief Accountant of the Government of Canada* be appointed to assist the Comptroller General in determining the format and content of the Consolidated Estimates and the Public Accounts, in setting standards of disclosure and accounting to be used in Estimates, Public Accounts, and annual reports, and in ensuring that approved standards are maintained.**

Accounting systems division in the accounting branch—p. 136

7.26 **the accounting branch of the Financial Management Secretariat include an accounting systems division charged with planning, controlling, and monitoring the development, introduction, and maintenance of cost-based accounting systems in departments.**

Professional development responsibilities—p. 138

7.27 **the Comptroller General determine the requirements of government for financial and accounting skills, and be responsible for the identification and development of the necessary people to meet these requirements.**

Comptroller General determines scope and standards of internal auditing—p. 139

7.28 **the minimum scope and standards of internal auditing, including auditing for compliance with central agency directives and guidelines, be determined by the Comptroller General.**

Internal audit programs and reports to be submitted to Comptroller General—p. 139

7.29 **departmental internal audit programs and reports be submitted to the Comptroller General for his review, and that the Comptroller General also have the authority to evaluate the effectiveness of the internal audit work performed by departmental and agency audit staff.**

Audit Services Bureau of DSS disbanded—p. 140

7.30 **the Audit Services Bureau in the Department of Supply and Services be disbanded and its staff transferred to individual departments and to the Financial Management Secretariat.**

Staffing Financial Administration Branch—p. 140

7.31 **the Financial Administration Branch in the Financial Management Secretariat be staffed to conduct internal audits of departments without an internal audit capability.**

Comptroller General assists departments in preparation of work plans—p. 140

7.32 **the Comptroller General and his staff work with departments to assist them in the preparation of annual work plans for improving financial management and control, and that they monitor and assist in the satisfactory implementation of these plans.**

Annual departmental management performance reviews—p. 141

7.33 **the Comptroller General and the Secretary for Personnel Management conduct an annual in-depth review of each department's management performance.**

Assessment of departmental performance sent to minister, President, PCO, and COSO—p. 144

7.34 **the assessment of departmental performance, prepared jointly by the Comptroller General and the Secretary for Personnel Management, be submitted to the responsible minister, the President of the Board of Management, the Privy Council Office, and the Committee of Senior Officials on Executive Personnel.**

7.35 the authority and responsibility for the operations of the Consolidated Revenue Fund and all other aspects of day-to-day cash management be clearly vested in and fulfilled by the Department of Finance. — Department of Finance responsible for all aspects of cash management—p. 145

7.36 all funds deposited in authorized depositories in the name of the Receiver General be credited immediately to the account of the Government of Canada, and that amounts in excess of minimum balances established by contract earn interest as from the following business day. — Funds deposited in the name of the Receiver General to earn interest immediately—p. 149

7.37 charges for all banking services rendered in connection with transactions relating to the government be made on a fully competitive basis. — Competitive charges for all banking services—p. 149

7.38 plans for daily minimum cash balances, receipts, and disbursements be made by the Bank of Canada in the light of information provided by the Department of Finance. — Bank of Canada plans for daily balances, receipts, disbursements—p. 150

7.39 subject to election by recipients, repetitive payments to individuals, such as those for salaries, pensions, and family allowances, be made by automatic transfer through the central clearing system to designated depositories, thus obviating the costs of cheque issue and distribution. — Repetitive payments to individuals made by direct transfer—p. 150

Chapter 8: Common Services

The Commission recommends that

8. 1 common service organizations be funded through a system of revenue dependency on a full-cost basis. — Revenue dependent system for funding—p. 162

8. 2 all common service organizations offer their goods and services at rates based on a full-cost approach, and that all goods and services provided by common service organizations be unit-priced. — Rates based on full-cost approach—p. 164; Unit pricing of goods and services—p. 164

8. 3 funds for common services, including, annual rental costs for accommodation, be provided in the Estimates of the user departments, and that all transactions between common service organizations and client departments be actual transactions. — Funds for common services provided in departmental Estimates—p. 165

8. 4 the Comptroller General annually conduct public hearings with respect to the fees charged by common service organizations with the full participation of common service organizations, program departments and agencies, and interested private sector groups, and that, on the basis of these hearings, the common service fee structures be recommended to the Board of Management for approval and communication to all departments and agencies. — Annual hearings re fees charged—p. 166

8. 5 the Bureau for Translations and the Government Telecommunications Agency be transferred to the Department of Supply and Services under the direction and control of the Minister of Supply and Services. — Bureau for Translations, Government Telecommunications Agency transferred to Supply and Services—p. 168

One deputy for Supply and Services—p. 169

8. 6 **all the functions of the Department of Supply and Services be brought together under one deputy minister.**

CADC subject to common service policies and departmental accountability régime—p. 169

8. 7 **the Crown Assets Disposal Corporation continue to be responsible to the Minister of Supply and Services, be governed by the common service policies of the Board of Management, and be subject to the proposed management and accountability régime recommended for all departments.**

Design and construction capabilities in departments to be constituted as Other Designated Departments—p. 169

8. 8 **the branches within the Departments of National Defence, Transport, and Indian Affairs and Northern Development which provide design and construction capabilities be specifically and separately identified and organized as *Other Designated Departments,* and made revenue dependent on a full-cost basis.**

PART III: DEPARTMENTS

Chapter 9: Responsibility and Accountability for Departmental Management

The Commission recommends that

9. 1 **departmental plans and performance goals be developed for the minister's approval by the deputy minister in his capacity as *Chief Administrative Officer,* and that the achievement of these program and performance objectives be monitored and later reviewed by the Board of Management in a manner that would permit the deputy to defend departmental performance.**

Review of departmental performance—p. 188

9. 2 **deputy ministers be liable to be called to account directly for their assigned and delegated responsibilities before the parliamentary committee most directly concerned with administrative performance, the Public Accounts Committee.**

Deputy head accountability before Parliament—p. 189

Chapter 10: The Appointment and Appraisal of Deputy Heads

The Commission recommends that

10. 1 **on appointment, a deputy head be expected to serve in his department for a period of three to five years.**

Deputy appointments for 3-5 years—p. 193

10. 2 **the views of the Secretary for Personnel Management and the Comptroller General be sought with respect to all deputy head appointments.**

Management potential of deputy head candidates—p. 194

10. 3 **on appointment of the deputy, the Secretary to the Cabinet, the official serving as adviser on senior appointments, and the two secretaries of the Board of Management meet with him to discuss departmental problems, issues, and performance expectations, and that individual objectives be agreed between the minister and the deputy, submitted to the Prime Minister, and serve as the continuing basis for performance evaluations.**

Setting objectives for deputy heads—p. 197

10. 4 **these statements of objectives be reviewed annually by the deputy head and the minister, and any changes deemed necessary be communicated to the Prime Minister, the Secretary to the Cabinet, the adviser on senior appointments, and the two secretaries of the Board of Management.**

Annual update of objectives—p. 199

10. 5 **the Committee of Senior Officials on Executive Personnel, comprising the Secretary to the Cabinet, the adviser on senior appointments, the Comptroller General, and the Secretary for Personnel Management as permanent members, and four other deputy ministers appointed on a rotational basis, be responsible for preparing for the Cabinet appraisals of the performance of all Governor in Council appointees who are involved in the management of departments.**

COSO, composition and role in appraisal—p. 199

Deputy comments on evaluation—p. 200

10. 6 **the deputy head have the opportunity to comment on the evaluation before it is forwarded to the Cabinet Committee on the Public Service and the full Cabinet.**

Reporting appraisal results to deputy head and minister—p. 201

10. 7 **following the final decision by the Cabinet, the annual evaluation of a deputy's performance be discussed personally with him by the adviser on senior appointments.**

Evaluation reviewed by minister—p. 201

10. 8 **the COSO evaluation of the deputy be reviewed and, if necessary, commented upon by the minister before its submission to the Cabinet.**

Deputy secretary to the Cabinet for senior appointments—p. 202

10. 9 **a deputy secretary to the Cabinet be assigned full-time responsibility for supporting the adviser on senior appointments.**

Chapter 11: The Preparation and Review of Departmental Plan

The Commission recommends that

Departmental responsibility centres to be related to resources and measurable outputs—p. 205

11. 1 **deputy heads of all departments ensure that their organizational structures clearly reflect that responsibility centres are directly related to programs, activities, or sub-activities that can be identified with particular resources and, where possible, with specific measurable outputs.**

Accountability of responsibility centre managers—p. 206

11. 2 **such responsibility centres be under the control of managers who can be accountable for establishing plans and achieving results.**

Departmental management committees set objectives and goals—p. 207

11. 3 **each departmental management committee place priority on developing strategy and plans by setting medium-term departmental objectives, by approving challenging goals for managers, and by communicating these objectives and goals clearly to managers of responsibility centres.**

Discontinue Program Forecasts—p. 208

11. 4 **the preparation and submission of Program Forecasts be discontinued.**

Departmental Strategic Plans—p. 209

11. 5 **departments be required to prepare *Departmental Strategic Plans* each year for submission to the Board of Management in support of the Estimates, and to the Department of Finance and the Privy Council Office for their information and consideration.**

Operational goals memorandum—p. 211

11. 6 **the departmental Estimates submission to the Board of Management be accompanied by a memorandum outlining the key operational goals to be achieved by the end of the Estimates year.**

Screening departmental plans—p. 213

11. 7 **the screening of departmental plans be concluded by the transmittal of a letter to each minister from the President of the Board of Management, and that this letter comment on the results of the screening and report any unresolved or other important issues.**

11. 8 **the minister responsible for the Departmental Strategic Plan and Estimates, accompanied by the deputy head, appear before the Board of Management to explain and justify his Estimates submission, and that the Comptroller General and the Secretary for Personnel Management attend these meetings to respond to any questions from the Board about their interpretation of, or recommendations on, the plans and the Estimates.**

Approving Estimates submissions—p. 215

11. 9 **the Financial Management Secretariat monitor the implementation of recommendations made by the Board of Management for any changes in departmental plans or Estimates.**

Comptroller General monitors implementation of Board's recommendations—p. 216

Chapter 12: The Deputy and the Departmental Management Team

The Commission recommends that

12. 1 **the Board of Management require the deputy to ensure that goals are set for each manager reporting directly to him, that goals focus attention on the most important problems and priorities in the manager's area of responsibility, and that they provide an objective basis for measuring the manager's performance.**

Senior departmental managers, goals and evaluation—p. 221

12. 2 **deputy heads be delegated the authority for approving organization, classification, and staffing decisions affecting all positions below the level of assistant deputy minister or equivalent within existing complements.**

Deputy has authority for staffing below ADM level—p. 222

12. 3 **the deputy's recommendations for the classification of positions at the level of assistant deputy minister and equivalent, and changes in organization involving positions at this level, be subject to approval by the Board of Management.**

Deputy's recommendations for classification of positions at ADM level subject to Board of Management approval—p. 223

12. 4 **for assistant deputy minister and equivalent positions, the deputy head select a candidate from a list drawn up by the Secretary for Personnel Management and recommend that candidate for appointment by the Secretary for Personnel Management.**

Secretary for Personnel Management appoints to positions at ADM level—p. 224

12. 5 **deputy heads establish similar procedures for delegating authority for and approving classification, organization, and staffing decisions within departments.**

Staffing decisions within departments—p. 225

12. 6 **the Board of Management ensure the effective discharge of these fundamental personnel management responsibilities by deputy heads through audit procedures and annual departmental performance reviews.**

Board to ensure effective personnel management—p. 224

12. 7 **Parliament enact legislation to introduce unsatisfactory performance as grounds for discipline or release, subject to the present appeals process and review by the Public Service Commission, and to simplify the process for disciplining or releasing consistently below-par performers at all levels.**

Unsatisfactory performance as grounds for release—p. 226

Deputy's authority to dismiss, demote, transfer employees—p. 228

12. 8 **the Secretary for Personnel Management of the Board of Management delegate to deputy heads who have established acceptable performance appraisal procedures the authority to dismiss, demote, or transfer employees below the level of assistant deputy minister.**

Placement and counselling service—p. 228

12. 9 **the Secretary for Personnel Management operate a placement and counselling service to assist employees who have been dismissed.**

Career development plans—p. 229

12.10 **deputy heads establish and follow a management succession and career development plan that systematically identifies candidates for senior positions in the department and for promotion to other positions within the public service.**

Secretary for Personnel Management consolidates plans—p. 231

12.11 **the Secretary for Personnel Management review the departmental plans with the deputy heads and consolidate them to establish a managerial career development plan for the government as a whole.**

Developing managers an important part of deputy's evaluation—p. 231

12.12 **the performance of deputy heads in developing managers be made an important part of the deputies' own performance evaluations.**

Senior personnel officer to report to deputy—p. 232

12.13 **the senior personnel officer in the department report directly to the deputy head and be a full and active member of the management committee.**

Chapter 13: Departmental Financial Organization and Person

The Commission recommends that

Training of senior managers in financial management—p. 235

13. 1 **staff courses, temporary secondment to the private sector, temporary assignment programs, and other career development arrangements for senior managers be developed in such a way that they lay strong emphasis on practical explanations and demonstrations so that participants develop a better understanding of the nature and purposes of financial management in government.**

Senior financial officers involved in planning, budgeting, evaluation in departments—p. 236

13. 2 **deputies be required to manage and organize their departments so as to permit senior financial officers to make a significant contribution to their planning, budgeting, controlling, and evaluation activities.**

Senior financial officers, goals and evaluation—p. 239

13. 3 **each senior financial officer be required annually to establish measurable goals for his personal performance, that such goals be agreed to by the deputy minister and the Comptroller General, and that his subsequent performance evaluation by the deputy be based on a measurement of achievement against these goals.**

13. 4 for senior financial officer positions, the deputy head select a candidate from a list drawn up by the Comptroller General and recommend that candidate for appointment by the Secretary for Personnel Management.

Appointment of senior financial officers—p. 239

13. 5 the senior financial officer in the department report directly to the deputy head and be a full and active member of the management committee.

Senior financial officer reports to deputy—p. 240

13. 6 the Comptroller General, if his discussions with the deputy head concerned produce no satisfactory result, be required to report to the Board of Management those instances where financial management in a department is unsatisfactory because of badly defined and/or ineffective functional authority of senior financial officers over financial staffs reporting to program or regional managers.

Comptroller General reports instances of unsatisfactory financial management—p. 242

13. 7 on receipt of a report of unsatisfactory financial management, the Board of Management be empowered to direct that all financial staff of the department concerned report directly to the senior financial officer for a period to be specified by the Board.

Board of Management empowered to direct financial staff to report directly to senior financial officer—p. 243

13. 8 the Secretary for Personnel Management of the Board of Management revise the classification benchmarks for financial and clerical positions to ensure that only those positions requiring formal accounting training are placed in the FI group; and that he ensure that all FI position descriptions accurately reflect the skills and duties required of the incumbent.

Secretary for Personnel Management to revise classification scheme for financial and clerical positions—p. 243

13. 9 the Secretary for Personnel Management of the Board of Management work closely with the Comptroller General to develop courses that meet both modern standards and financial management requirements in the federal government, and that satisfactory completion of such courses be appropriately tested and recognized.

Development of courses for financial management in government—p. 245

Chapter 14: Accounting and Auditing

The Commission recommends that

14. 1 comprehensive cost-based accounting systems be developed and used in all federal departments and agencies, and that these systems meet the criteria of capturing all costs on a timely and accurate basis and be integrated with costing systems capable of analyzing the data thus obtained.

Cost-based accounting systems for all departments and agencies—p. 250

14. 2 accounting systems in departments and agencies incorporate independent financial control over all non-cash assets, and particularly over fixed assets and inventories.

Accounting systems incorporate financial control over non-cash assets—p. 251

14. 3 the federal government take the lead in setting up a joint task force with the provincial governments to determine the accounting standards that should be recognized, accepted, and used in the presentation of government financial information.

Joint task force to determine accounting standards for government—p. 255

Departments responsible for accounting systems—p. 257	**14. 4**	**departments be fully responsible for the design and upkeep of their own accounting systems.**
Systems to meet requirements of central agencies—p. 259	**14. 5**	**departmental accounting systems be designed to provide the information required by central agencies accurately and promptly.**
Systems formally approved by Comptroller General—p. 259	**14. 6**	**departmental accounting systems, and any subsequent changes therein, be formally approved by the Comptroller General before being brought into use.**
Broadening the scope of internal audit in departments—p. 260	**14. 7**	**the internal audit responsibility of departments and agencies be based on a comprehensive approach to all financial, operational, and management auditing, and that it therefore cover adherence to all centrally-prescribed financial, personnel, official languages, data processing, and other administrative policies and procedures, as well as the economy, efficiency, and effectiveness with which resources are used.**
Departmental Audit Committees—p. 263	**14. 8**	*Audit Committees* **be formally created in all departments and that they comprise at least the deputy head and two members from the ranks of senior executives of major corporations and organizations in the private sector.**

PART IV: CROWN AGENCIES

Chapter 16: A Proposed Re-ordering of Crown Agencies

The Commission recommends that

16. 1 **the Schedules to the Financial Administration Act be replaced by a more comprehensive set of schedules in accordance with four categories:**

1) ***Ministerial and Other Designated Departments***
2) ***Independent Deciding and Advisory Bodies***
3) ***Crown Corporations***
4) ***Shared Enterprises***

and that when any re-scheduling occurs such decisions be tabled for the information of Parliament.

Categorization for departments and Crown agencies—p. 279

Chapter 18: Independent Deciding and Advisory Bodies

The Commission recommends that

18. 1 **every constituent act of an *Independent Deciding and Advisory Body* designate one official as chief executive officer who will be responsible for the supervision and direction of the work and staff of the agency and be held accountable for the administration of the agency.**

Constituent act to designate one official as chief executive officer—p. 312

18. 2 **unless specifically exempted in the constituent act, the authority of the Board of Management with respect to financial and personnel management in departments apply to Crown agencies in Category II, *Independent Deciding and Advisory Bodies.***

Departmental accountability régime applies—p. 313

18. 3 **when *Independent Deciding and Advisory Bodies* are established, the goals and public policies they are to implement, or be guided by, be clearly set out in their constituent acts.**

Goals to be clearly set out in acts—p. 314

18. 4 **in cases where *Independent Deciding and Advisory Bodies* are authorized to make regulations, these be subject to Governor in Council approval before being promulgated.**

Regulations subject to Governor in Council approval—p. 315

18. 5 **the constituents acts of *Independent Deciding and Advisory Bodies* contain provisions allowing for policy directives from the Governor in Council.**

Policy directives from Governor in Council—p. 316

18. 6 **prior to the issuance of a policy directive to an *Independent Deciding and Advisory Body,* the Government refer the matter to the agency, which may request public submissions thereon and shall make a public report within ninety days or such longer period as the Government may specify, and further, that such directives be published in the *Canada Gazette* and tabled in the House of Commons.**

Directives to be made public, published in the *Canada Gazette*, and tabled in Parliament—p. 317

18. 7 **the right to appeal individual decisions of *regulatory* agencies to designated ministers or the Governor in Council be abolished.**

Abolish political appeals—p. 318

Transfer of functions requires parliamentary approval—p. 319

18. 8 without abrogating the powers granted to the Governor in Council in the Public Service Rearrangement and Transfer of Duties Act, the transfer to a department or agency of government of any function assigned by statute to an *Independent Deciding and Advisory Body* require parliamentary approval.

Members subject to removal for cause—p. 321

For regulatory agencies removal subject to joint resolution—p. 321

18. 9 all constituent acts of *Independent Deciding and Advisory Bodies* clearly stipulate that members shall be subject to removal only for cause and that in addition, for *regulatory* agencies, such action be subject to a joint resolution of both Houses of Parliament.

Chief executive officers appointed for three-year terms and evaluated by COSO—p. 322

18.10 the members of *Independent Deciding and Advisory Bodies* designated as chief executive officers be appointed to such positions for three-year terms, subject to renewal, and that their administrative performance be evaluated by the Committee of Senior Officials on Executive Personnel, and its reports be submitted to the Cabinet when it is considering re-appointment.

Chief executive officers undertake annual performance evaluations of members—p. 323

18.11 chief executive officers of *Independent Deciding and Advisory Bodies* undertake annual performance evaluations of the members of their agencies and that such evaluations be forwarded to COSO and the Cabinet.

Annual reports referred to standing committees—p. 324

18.12 the annual reports of *Independent Deciding and Advisory Bodies* be automatically and permanently referred to the appropriate standing committees of the House of Commons, and that they provide a thorough description of the activities of the preceding year including both achievements and problems, a record of reports issued and directives received, and plans for the coming year.

Minister to review functions and operations—p. 325

18.13 the designated minister be required to undertake a review of the functions and operations of *Independent Deciding and Advisory Bodies* not less than once every ten years, and further, that the results of such reviews be tabled in the House of Commons and be automatically and permanently referred to the appropriate standing committee.

Chapter 19: Crown Corporations

The Commission recommends that

Clear statements of task, purposes, objectives and powers of Crown Corporations—p. 333

19. 1 in the constituent act, or letters patent issued under the Canada Business Corporations Act, for each *Crown Corporation*, the mandate provide a clear definition of the task, purposes, objectives, and powers devolved upon the corporation, and, where letters patent are used to constitute the corporation, that these automatically be tabled in Parliament.

Creation or acquisition of Crown Corporations or subsidiaries—p. 334

19. 2 the creation of a *Crown Corporation* or subsidiary or the acquisition of a company by a *Crown Corporation* or subsidiary require express parliamentary sanction in the relevant departmental or *Crown Corporation* constituent act and prior Governor in Council approval.

19. 3 the chief executive officer be responsible for preparing a *Corporate Strategic Plan* for the approval of the board and for the information of the designated minister.

Preparation and approval of Corporate Strategic Plan—p. 335

19. 4 directives issued to a *Crown Corporation* by the designated minister be subject to Governor in Council approval, be tabled forthwith in Parliament, and be duly recorded in the annual report of the corporation.

Ministerial directives to be tabled in Parliament, recorded in annual report—p. 336

19. 5 directives issued to a *Crown Corporation* be binding on the corporation but that they relieve the directors of their responsibility in the matter, and that, where directives result in additional costs to the corporation, compensation on an agreed or independently arbitrated basis be awarded.

Directives binding on the corporation—p. 337

Compensation—p. 338

19. 6 directors of *Crown Corporations* be appointed for three-year staggered terms by the Governor in Council on the recommendation of the designated minister, after consultation with the chairman of the board of directors.

Appointment and terms of directors—p. 339

19. 7 the chairman of the board of directors of a *Crown Corporation* be appointed by the Governor in Council after consultation with the board.

Appointment of chairman—p. 340

19. 8 subject to confirmation by the Governor in Council on the recommendation of the designated minister, the chief executive officer of a *Crown Corporation* be appointed and removed by the board of directors of the corporation.

Appointment of chief executive officer—p. 341

19. 9 the president of a *Crown Corporation* be chief executive officer, and that his remuneration, together with that of the chairman of the board, be fixed by the board of directors within ranges approved by the Governor in Council, such ranges to be determined on the recommendation of independent advisers.

President is chief executive officer—p. 342

Remuneration of president and chairman fixed by board—p. 342

19.10 the board of directors of a *Crown Corporation* be responsible for establishing the form and contents of the capital and operating budgets based on the highest accepted standards.

Board of directors responsible for form and contents of budgets—p. 342

19.11 the capital budget, when appropriations are not required, be approved by the board of directors, submitted to the designated minister and the Minister of Finance for review and approval, and thereafter be submitted to the Governor in Council for approval and subsequent tabling in Parliament at the same time as the Estimates.

Approval of capital budget when appropriations not required—p. 342

19.12 the capital budget, when appropriations are required, be approved by the board of directors, submitted to the designated minister, the Minister of Finance, and the Board of Management for review and approval, and thereafter be submitted to the Governor in Council for approval and subsequent tabling in Parliament with the Estimates.

Approval of capital budget when appropriations are required—p. 342

19.13 the operating budget, when appropriations are not required, be approved by the board of directors, be presented to the designated minister for information, and be assigned to the chief executive officer for implementation.

Approval of operating budget when appropriations not required—p. 344

Approval of operating budget when appropriations are required—p. 344

19.14 **the operating budget, when appropriations are required, be approved by the board of directors, and forwarded to the designated minister for his approval and subsequent transmission to the Board of Management and the Governor in Council for their approval prior to tabling in Parliament, and that all approval procedures be completed before the budget is assigned to the chief executive officer for implementation.**

Bylaws effective upon board approval—p. 347

19.15 ***Crown Corporation*** **bylaws take effect on approval by the board of directors, but that they require subsequent ratification by the Governor in Council and tabling in Parliament.**

Codes of conduct and systems of compliance are board responsibilities—p. 347

19.16 **codes of conduct and a system of compliance be prepared by** ***Crown Corporations,*** **approved by the board of directors, and agreed with the minister, and that monitoring of compliance be the responsibility of the board.**

Audit committees—p. 349

19.17 **all** ***Crown Corporations*** **appoint audit committees made up of outside directors.**

Appointment of external auditor—p. 349

19.18 **the Governor in Council appoint the external auditor on the recommendation of the board of directors, except where the auditor is already named in constituent legislation.**

Auditor General has access to audit reports of outside auditors—p. 349

19.19 **the Auditor General, where he is not named as the external auditor, have access to the audit reports of outside auditors of** ***Crown Corporations.***

Every subsidiary listed with its parent corporation—p. 352

19.20 **every subsidiary be listed with its parent in the** ***Crown Corporations*** **category, and that the financial statements of all subsidiaries on both a consolidated and unconsolidated basis be included in the parent corporation's annual report.**

Minister to review operations and functions every ten years—p. 353

19.21 **the designated minister be required to undertake a review of the mandate and operations of** ***Crown Corporations*** **not less than once every ten years and further that the results of such reviews be tabled in Parliament and referred automatically for study and appropriate action to the relevant standing committee.**

Chapter 20: Shared Enterprises and Quasi-public Corporatio

The Commission recommends that

Shared Enterprises and subsidiaries included in revised schedules to the FAA—p. 356

20. 1 ***Shared Enterprises*** **be listed as such for purposes of identification in the revised schedules to the Financial Administration Act, and that the subsidiaries of** ***Shared Enterprises*** **be directly accountable to their parent corporations and identified by and listed with their parent corporations.**

Accountability of Shared Enterprises—p. 359

20. 2 **accountability with respect to the delegated public responsibility of** ***Shared Enterprises*** **normally be subject to appropriate federal or provincial corporate law, and, in addition, that provision be made for appropriate reporting and disclosure to Parliament.**

20. 3 **the designated minister as trustee shareholder for the Crown accept the rights and responsibilities of any shareholder under the applicable corporate law, except where those rights and responsibilities have been clearly modified by a specific constituent act.**

Rights of designated minister—p. 359

20. 4 **the designated minister be the accountability link between a *Shared Enterprise* and Parliament.**

Accountability to Parliament—p. 359

20. 5 **the annual reports of *Quasi-public Corporations* that receive grants or contributions from the Government be tabled each year at the same time as the tabling of the Estimates.**

Annual reports of Quasi-public Corporations—p. 364

20. 6 **the Government undertake to hold the officers of *Quasi-public Corporations* accountable in a manner commensurate with the degree of governmental sponsorship or encouragement of those corporations.**

Accountability of Quasi-public Corporations—p. 364

PART V: ACCOUNTABILITY TO PARLIAMENT: CLOSING THE LOOP

Chapter 21: Rights and Responsibilities

The Commission recommends that

21. 1 **the deputy minister as chief administrative officer account for his performance of specific delegated or assigned duties before the parliamentary committee responsible for the scrutiny of government expenditures, the Public Accounts Committee.**

Deputy accountable before Public Accounts Committee—p. 374

21. 2 **there be established a committee of the House of Commons to be known as the *Standing Committee on Government Finance and the Economy*, that the annual Fiscal Plan presented to Parliament be automatically and permanently referred to this committee, that the committee report to the House on its study of the Plan, and, that the Government respond formally to the committee's report during a subsequent debate.**

Fiscal Plan automatically and permanently referred to a new Standing Committee on Government Finance and the Economy—p. 381

Chapter 22: Instruments and Procedures

The Commission recommends that

22. 1 **the total number of standing committees of the House of Commons be reduced and that, with the exception of the Public Accounts Committee, membership on them be limited to 15 or fewer.**

Reduce number and membership of standing committees—p. 389

22. 2 **Standing Order 65.(4) be amended to provide for prior notice of votes in committees and the establishment of alternates lists from which to draw substitutes for committee members.**

Prior notice of votes and alternates lists—p. 397

22. 3 **the chairmen of standing committees be elected by each committee for the life of a parliament, and receive remuneration for performing their duties, such remuneration to relate to that received by parliamentary secretaries.**

Term and remuneration of standing committee chairmen—p. 399

22. 4 **each standing committee of the House of Commons be allotted a budget to which all expenses associated with the operation of the committee are charged, that the budget include an allocation for hiring staff but that the selection of staff be at the discretion of the committee, and, that staff be at the service of the whole committee but under the direction of the chairman.**

Budgets and staff for standing committees—p. 400

22. 5 **the annual reports of departments and agencies be automatically and permanently referred to the appropriate standing committees of the House of Commons.**

Automatic and permanent reference of annual reports—p. 401

22. 6 **Standing Order 58.(16) be re-interpreted to make clear that substantive reports from House committees are desirable whether or not they are to be debated.**

Substantive reports from committees—p. 403

Partial reduction of an item of expenditure—p. 404

22. 7 **Standing Order 58 be amended to permit standing committees to recommend the partial reduction of an item of expenditure in the Estimates.**

Legislation relating to taxation referred to committee—p. 407

22. 8 **all legislation relating to taxation be referred to the Standing Committee on Government Finance and the Economy, and that this committee be informed of the likely effects on the Fiscal Plan of all other legislative proposals.**

Standing committees to study impact of programs—p. 409

22. 9 **standing committees undertake, as the need arises or as time permits, in-depth studies of the impact of programs, and that these studies concentrate on reviewing the need for and the benefits conveyed by specific programs.**

16 - CROWN AGENCIES

19 - CROWN CORPS

20 - Shared enterprises
and quasi-public
corps.